

Statement of
GLENN IFUKU
Department of Business, Economic Development and Tourism
before the
**HOUSE COMMITTEE ON FINANCE AND THE SENATE COMMITTEE ON
WAYS AND MEANS**
Monday, January 13, 2003
9:00 a.m.
State Capitol Auditorium

HAWAII'S ECONOMY AND OUTLOOK

Introduction

Good morning. I'm here this morning to review the performance of Hawaii's economy over the past year and to report on the outlook for the year to come. The review of the year 2002 follows an economic story line that was neither smooth nor simple. The path of economic progress was marked both by pleasant surprises and unfulfilled hopes. It was a year of steady recovery in some sectors and unyielding inertia in others. This split personality causes special uncertainties in projecting the mood and direction of the year to come.

Hawaii entered 2002 shaken by the economy-changing events of September 11, 2001. Our Transportation, Retail and Hotel industries gave up 11,000 jobs compared to January 2001. And Hawaii was not alone in this predicament. The U.S. economy had lost 2.4 million jobs in the twelve months prior to January 2002. The U.S. economy began the year appearing to slide back toward recession and Japan was still floundering in an economic malaise. The tragic events of September 11, 2001 combined with the slow or negative growth by Hawaii's largest and most important trading partners to have a slowing effect on our economy. My review of Hawaii's economy in 2002 and my outlook for 2003 begins in this challenging context.

External Conditions

Looking at the first slide, we can see that the mainland U.S. is growing less vigorously than usual. The next slide shows that the Japan economy is still in recession. The reduced growth in Hawaii's two most important markets during 2002 was responsible for much of the slowing in our economy.

Hawaii Situation

Workforce

Turning our attention to the review of Hawaii's economy in 2002, I will begin with the workforce. Over the first eleven months of 2002, the period for which we currently have data, civilian employment was down 0.9 percent and civilians unemployed declined 6.7 percent over the first 11 months of 2001. The drop in both employed and unemployed people is a function of a general reduction in Hawaii's labor force from an average of over 605,000 persons in the first 11 months of 2001 down to an average of 598,000 during the same period of 2002. In November, the Hawaii unemployment rate remained relatively low at 4.0 percent statewide, which was better than the national rate of 5.7 percent. Non-agricultural wage and salary jobs were up 1.2 percent in November compared to last November with Transportation, Retail and Hotels continuing to be the industries with the most jobs lost.

Personal Income

One of the bright spots of last year in Hawaii's economy was the surprising stability of growth in personal income. The latest available data from U.S. Bureau of Economic Analysis show that Hawaii's total personal income grew 3.9 percent in the second quarter of 2002 over the second quarter of 2001. In real terms (that is, adjusting for inflation), DBEDT projects that personal income will grow 2.5 percent in 2002.

From the second quarter of 2001 to the second quarter of 2002, Hawaii personal income grew \$1.4 billion from \$35.4 billion to \$36.8 billion. The largest share of this increase can be attributed to the \$650 million or 3.3 percent increase in wage and salary disbursements. Proprietors' income grew by about \$80 million. Transfer payments grew by almost \$380 million.

By industry, the services sector led all other private industries with a \$200 million increase. Services were followed by Construction and Finance, Insurance and Real Estate. Earnings in both of these sectors grew by \$100 million. The largest increase in earnings for the 12 months through June 2002 was by the State and local governments with a \$420 million increase. Federal earnings increased by \$200 million.

Prices

Inflation in Hawaii remained low. Between the first half of 2001 and the first half of 2002, the Honolulu Consumer Price Index for urban consumers (CPI-U) increased by 1.1 percent. By comparison, from June 2001 to June 2002 the CPI-U for the U.S. increased by 1.3 percent. The largest influence on the consumer price index is the price of housing which in Honolulu makes up 42 percent of the total. The continued low growth of housing costs, most recently 1.0 percent according to the most recent Bureau of

Labor Statistics CPI report, has been largely responsible for keeping Honolulu's CPI down.

Visitors

Another of the pleasant surprises in last year's economic results is the rebound of tourists from the U. S. mainland. At the beginning of 2002 in January, total visitor arrivals were down by 13.1 percent over the previous January. This decline was led by a 25.0 percent decrease in international arrivals while domestic arrivals were 8.8 percent lower than they were in January 2001. However, by the end of November, year-to-date visitor arrivals were off only 0.4 percent. International arrivals are still lagging by 6.2 percent, but domestic arrivals are up for the first eleven months of the year by 2.5 percent.

Through November 2002, the total number of year-to-date visitor days had grown 1.8 percent from the previous year. Average daily visitor census, a function of visitor days, was also up 1.8 percent. The increase in visitor days led to an increase in hotel occupancy rates. For this past November, statewide occupancy was 65.5 percent compared with 57.5 in November 2001 or an increase of 8.1 percent. Average year-to-date occupancy rates through November are down 0.6 percent.

Average daily room rates were off over the first several months of 2002, but the year-over-year growth has turned positive over the last few months. The effects of the reduced visitor demand early in the year are still being felt, however, as the statewide year-to-date average rate for the first 11 months of 2002 was 3.0 percent below the average for the same period in 2001.

An especially positive aspect of the tourist sector in 2002 was the cruise business and the large-scale entry of Norwegian Cruise Lines to the Hawaii market. Based on data for months when cruise data were received, total cruise visitors are up over 40 percent from 2001.

Construction and Real Estate

Construction activity in 2002 continued to increase over the generally healthy activity in 2001. The general excise tax base for contracting increased by 13.4 percent for the first 10 months of 2002 over the same period in 2001. Increasing construction output is also reflected in the 3.6 percent increase in construction jobs for the first eleven months of 2002. The value of private building authorizations, an indicator of future construction, increased by 11.5 percent during the first eleven months of 2002 compared to the same period of 2001.

The volume of residential home and condominium sales has been increasing for some time and continued its strength in 2002. Based on data for the Oahu real estate market, sales of single-family residential properties were up 14.7 percent in 2002 and condominium sales were up 26.9 percent for the same period. Median prices of single-

family homes and condominiums also increased significantly in 2002. Comparing the sales prices in December 2001 and December 2002, the median single home price was up 13.5 percent and the median condominium price was up 23.1 percent.

Federal Expenditures

Military and civilian expenditures by the federal government make up a large and dependable inflow of funds to Hawaii's economy. Including transfer payments, federal spending exceeded \$9 billion in 2001 and indications are that federal spending will increase in the coming year to support our military efforts.

Tax Revenues

Based on preliminary December tax data, during calendar year 2002, general fund tax revenues were down 1.8 percent over calendar 2001. Due to the changed filing thresholds set by Act 8 of the special session of October 2001, these figures are not directly comparable. Starting in February 2003, the year-over-year monthly comparisons should regain their comparability.

In the first six months of fiscal year 2003, State general fund revenues have increased 4.4 percent over the first six months of fiscal 2002. For the two largest tax categories, general excise and use tax collections provided a positive push with an 8.3 percent increase while individual income tax collections dropped off 2.2 percent for the first six fiscal months. Transient accommodations tax revenue was up by 4.9 percent reflecting the effect of increased visitor arrivals and higher average room rates in the second half of 2002 compared with the second half of 2001.

The Counties

The visitor sectors of all counties were affected by the downturn that followed September 2001, but none was hurt as badly as the City and County of Honolulu. This can be seen in the trends in job growth. The City and County of Honolulu had the largest job losses, followed by Maui, which reflects Maui's dependence on visitor spending.

The pattern of job growth by industry was similar in all counties with positive effects being dominated by construction and government. The increase in State government employment in 2002 was thought to be related to compliance with the Felix consent decree.

Projections of External Factors

As I mentioned earlier, the mainland U.S. is growing less vigorously than usual and the Japan economy is still in recession. The reduced growth in Hawaii's two most important markets during 2002 was responsible for much of the slowing in our economy. Expectations for 2003 are mixed.

The Blue Chip forecasters expect slow, but positive, growth in the U.S. economy in 2003. Growth in real gross domestic product is forecast to be 2.8 percent. Looking west, the Japanese economy, which declined by 0.3 percent in 2001 and is expected to lose another 0.3 percent in 2002, is now projected by the Consensus forecasters to get back into positive numbers in 2003 with a 0.4 percent growth rate. Japan's economic weakness is accentuated, from Hawaii's standpoint, by the added weakness in the yen. The yen has recently been trading at about 120 to the dollar. Hawaii goods and services become relatively more expensive and thus less attractive to the Japanese at the current value of the currency.

Of course, all such projections presume the avoidance of another catastrophic event. Another terrorist attack on the U.S. or our entry into war with Iraq would almost certainly slow Hawaii's economic recovery.

Forecast for Hawaii

Through September, DBEDT's leading economic indicator (LEI) has been rising 8 straight months. The LEI was developed to signal changes in economic activity five to ten months ahead. A rise in the index signals faster growth ahead, and a decline in the index signals slower growth. Therefore, this index is signaling the possibility of increased growth in Hawaii's economy.

The main factors driving the LEI in recent months have been split evenly between the local influences and the national and international conditions. The trends in unemployment claims, construction permits, the National leading index and Japanese labor income have combined to suggest a return to stronger growth in Hawaii.

DBEDT's current forecast for Hawaii's economy is for a continued gradual recovery from the declines of late 2001. Based on the rate of increase in visitor arrivals that we are already seeing, we are projecting a 6.1 percent increase in visitor arrivals in 2003 over the reduced level of 2002. This will still not bring us back to our year 2000 visitor count until 2004. As a result, we are forecasting moderate levels of growth for jobs and personal income growth. The lingering effects of the current slowdown, lead to a negative job growth rate in 2002, so for the years 2003 and beyond, we are currently projecting a return to more "normal" growth rates.

Thank you for the opportunity to share this information with you.

Hawaii's Economy and Outlook

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Glenn Ifuku

Research and Economic Analysis Division

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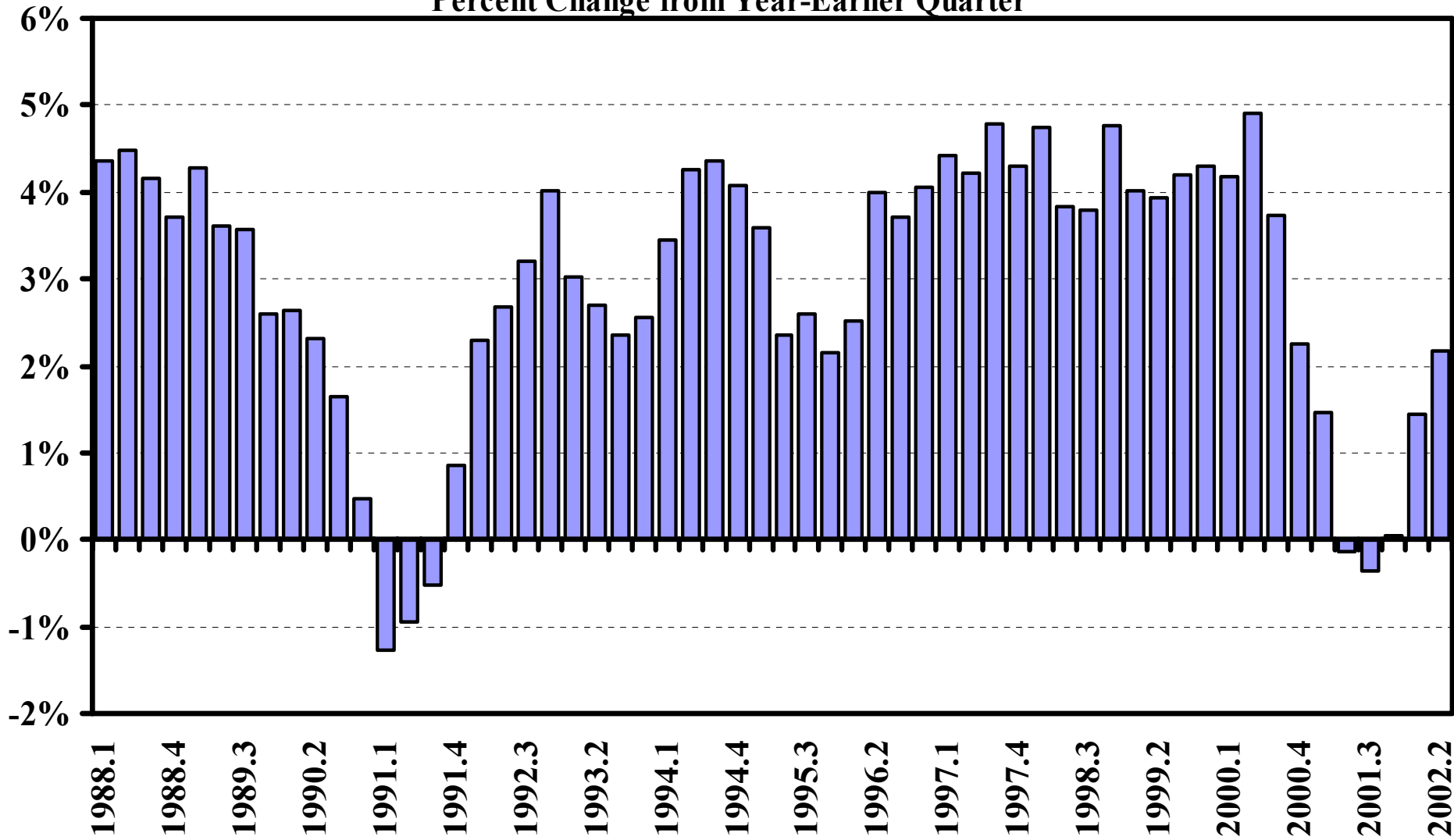
9:00 a.m.

State Capitol, Auditorium

The U.S. economy returned to positive growth in 2002.

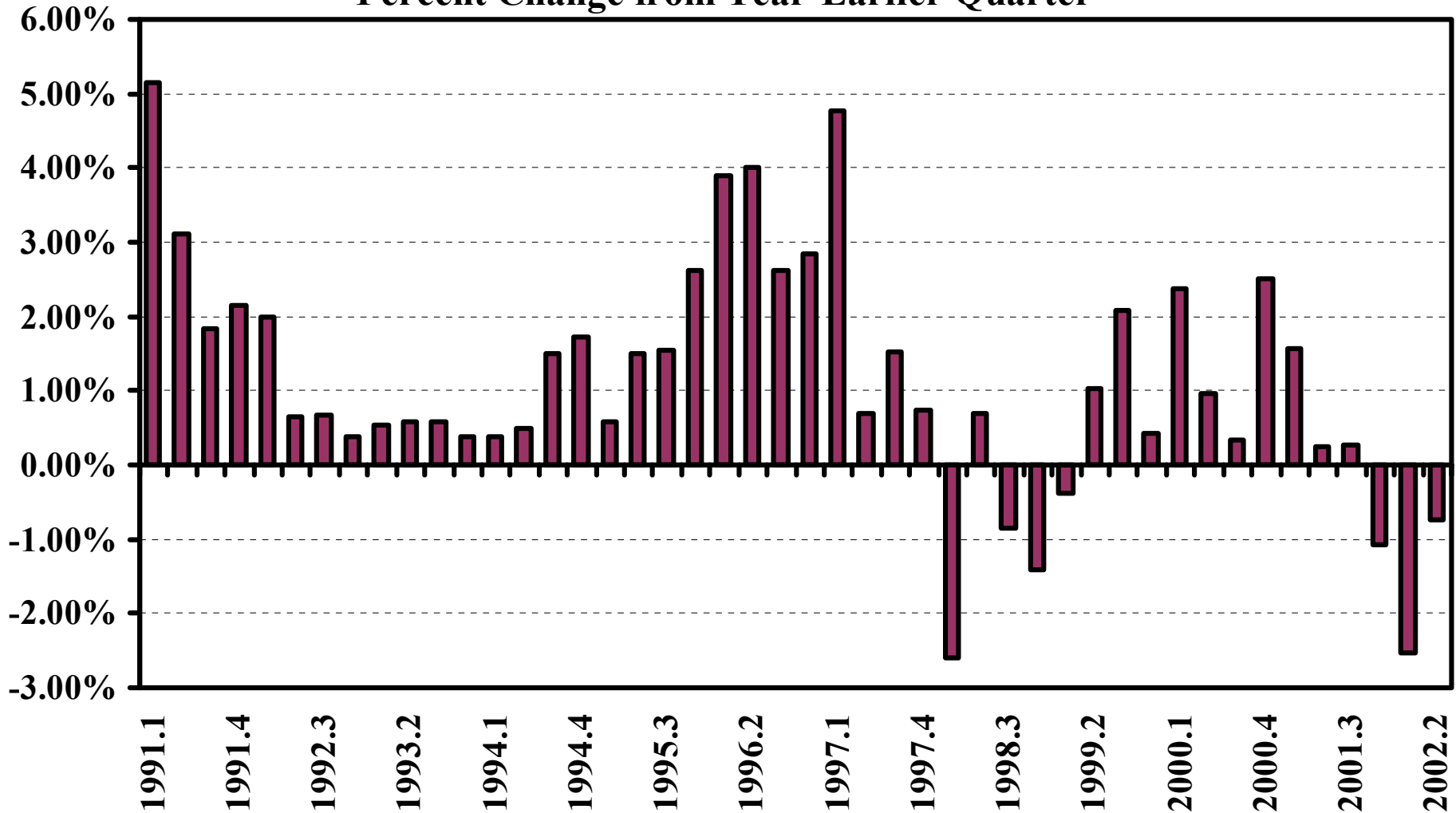
U.S. RGDP Percent Growth

Percent Change from Year-Earlier Quarter



Japan's economy has not yet turned around.

Growth in RGDP for Japan
Percent Change from Year-Earlier Quarter

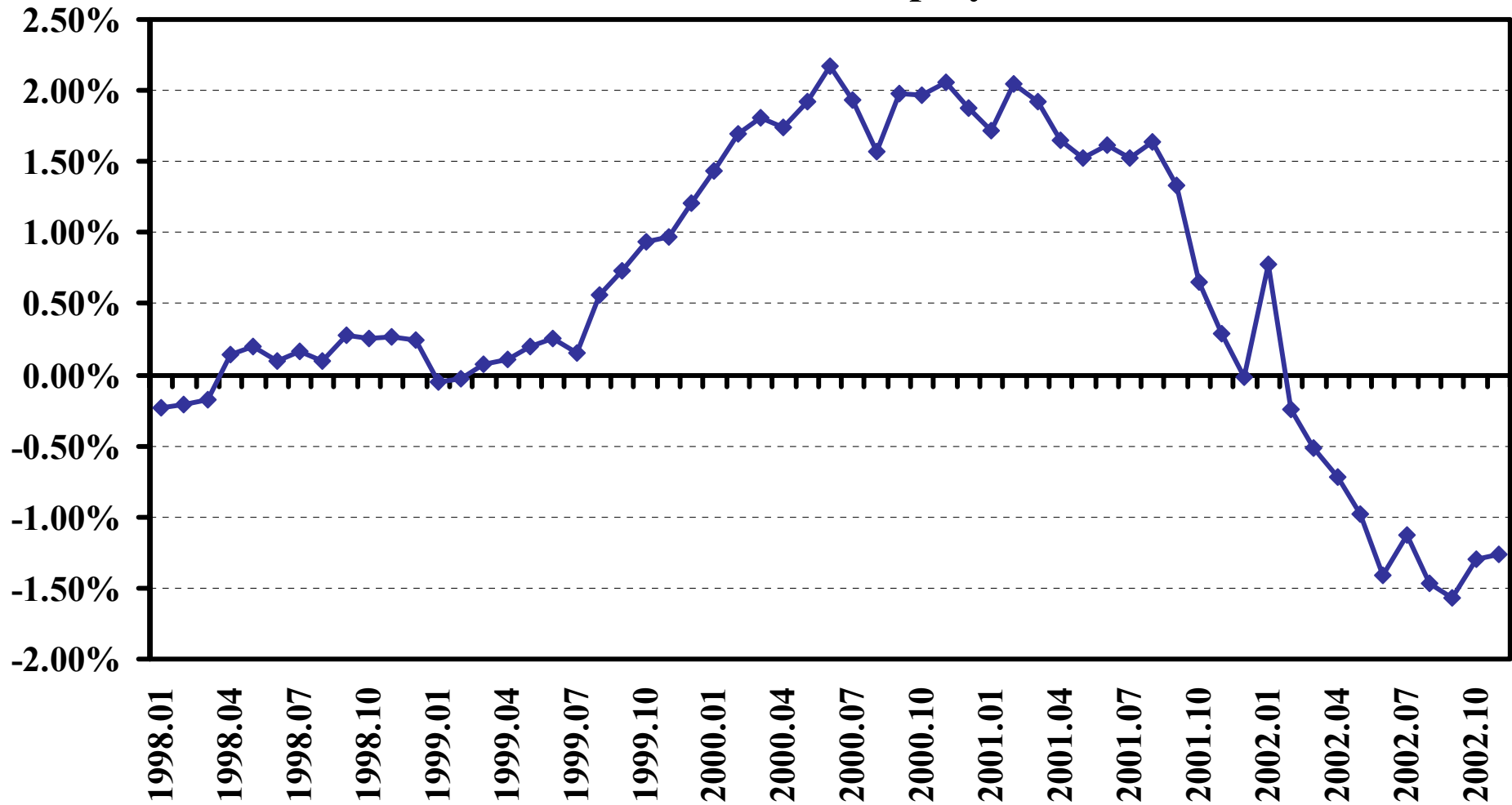


Topics

- **Hawaii's Economy**
- **The Counties**
- **External Conditions**
- **Forecast for Hawaii**

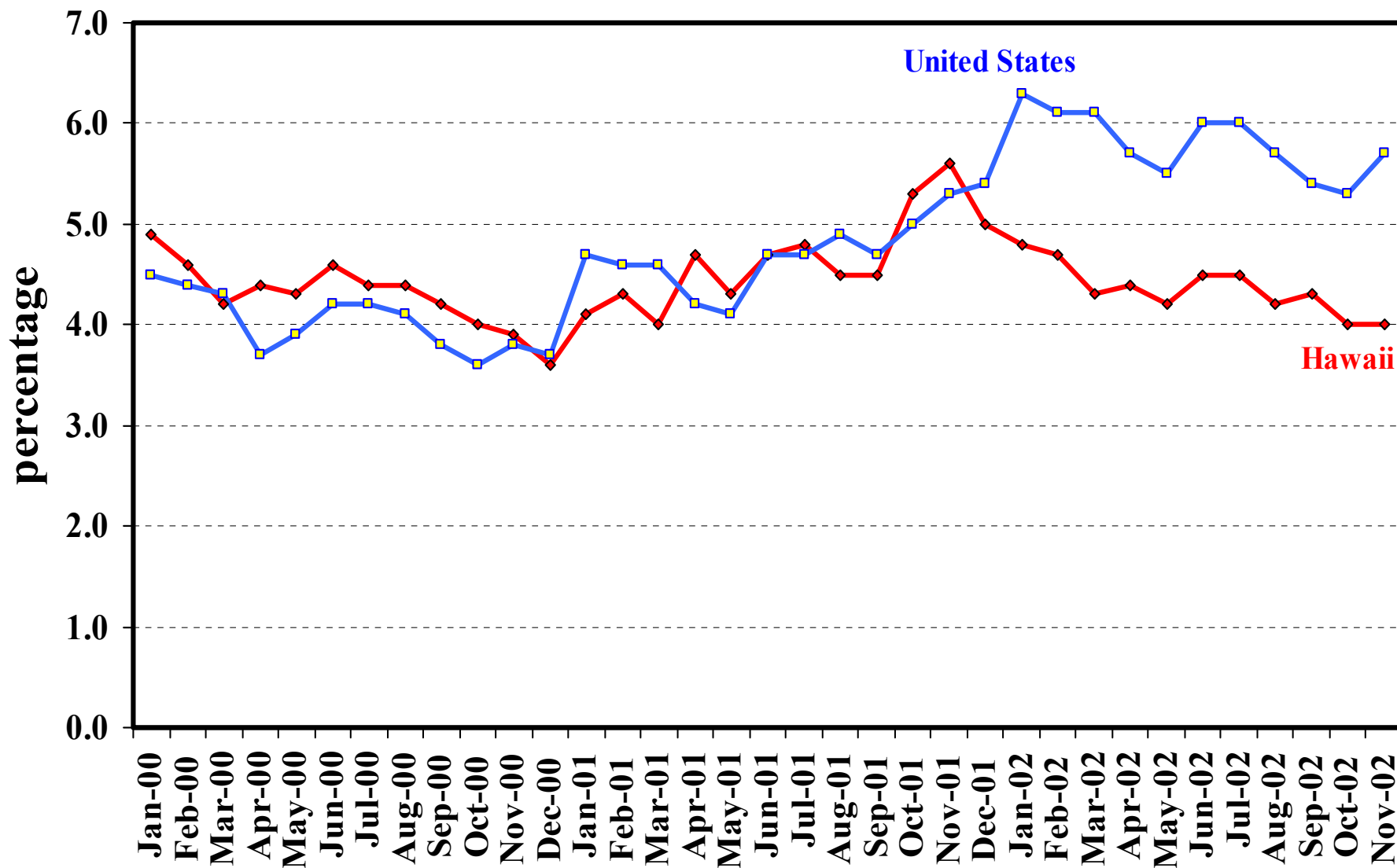
Civilian employment still declining.

Growth in Civilian Employment



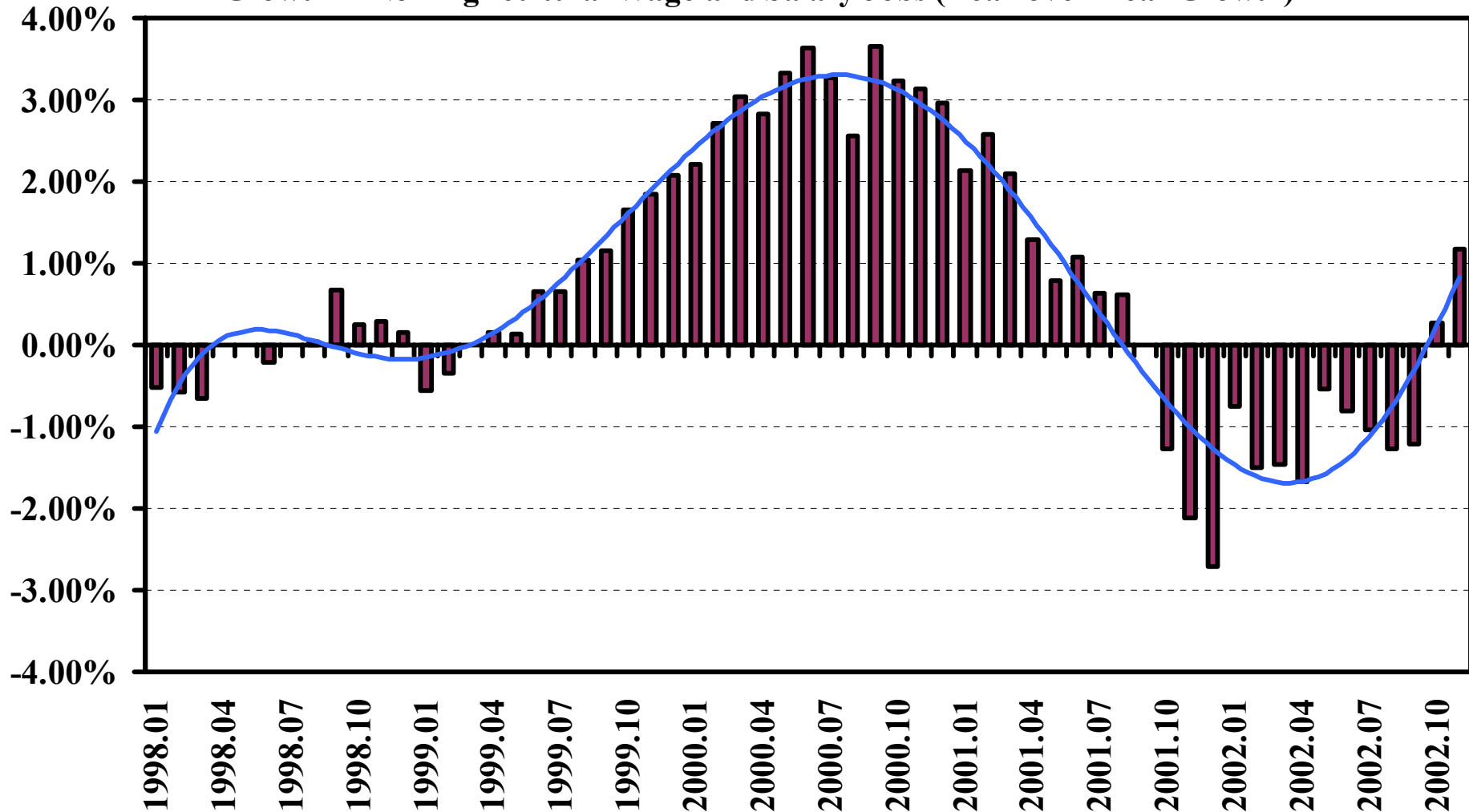
Source: Department of Labor & Industrial Relations

United States and Hawaii Unemployment Rates



Monthly non-agricultural job growth is now positive.

Growth in Non-Agricultural Wage and Salary Jobs (Year-over-Year Growth)

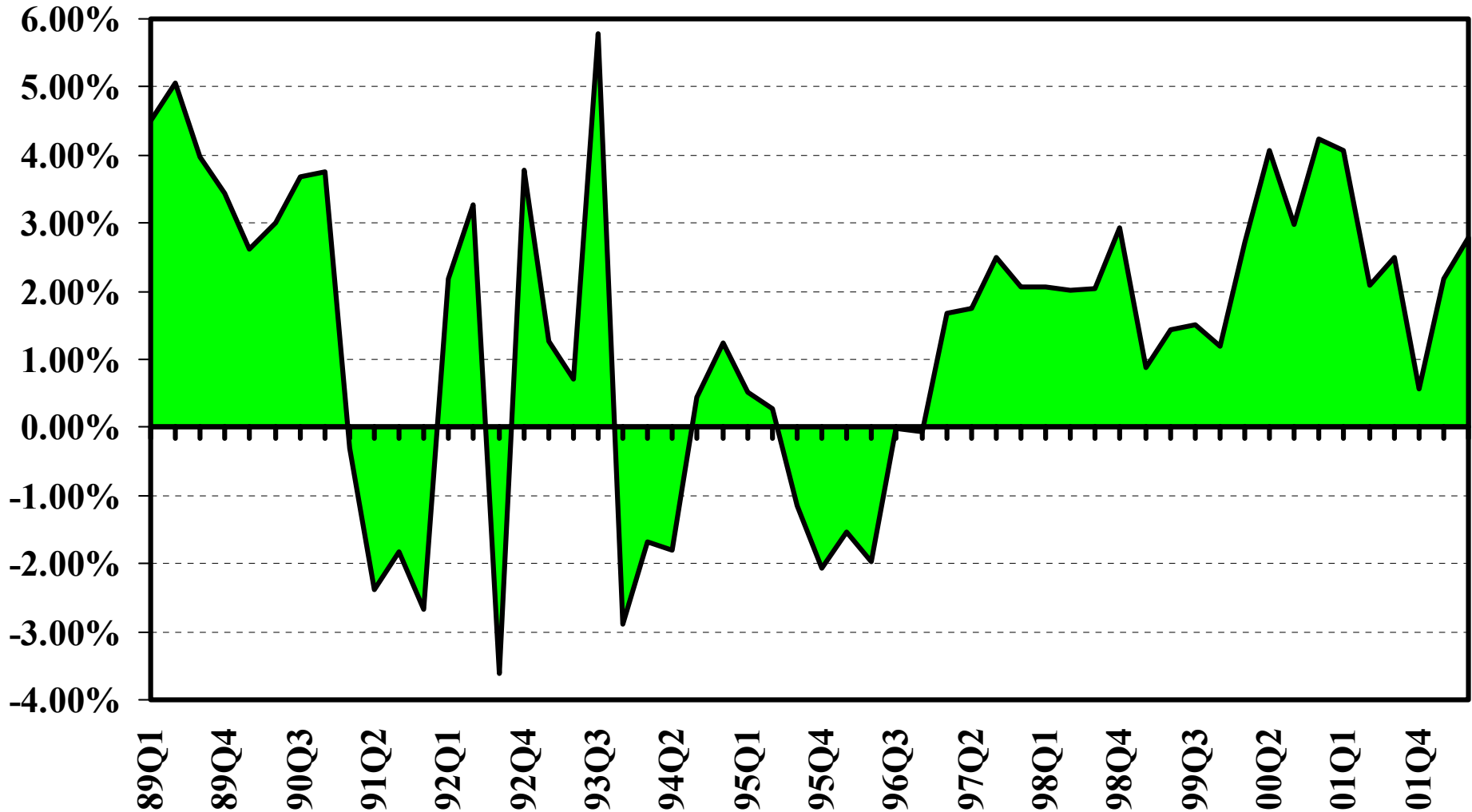


Source: Department of Labor & Industrial Relations

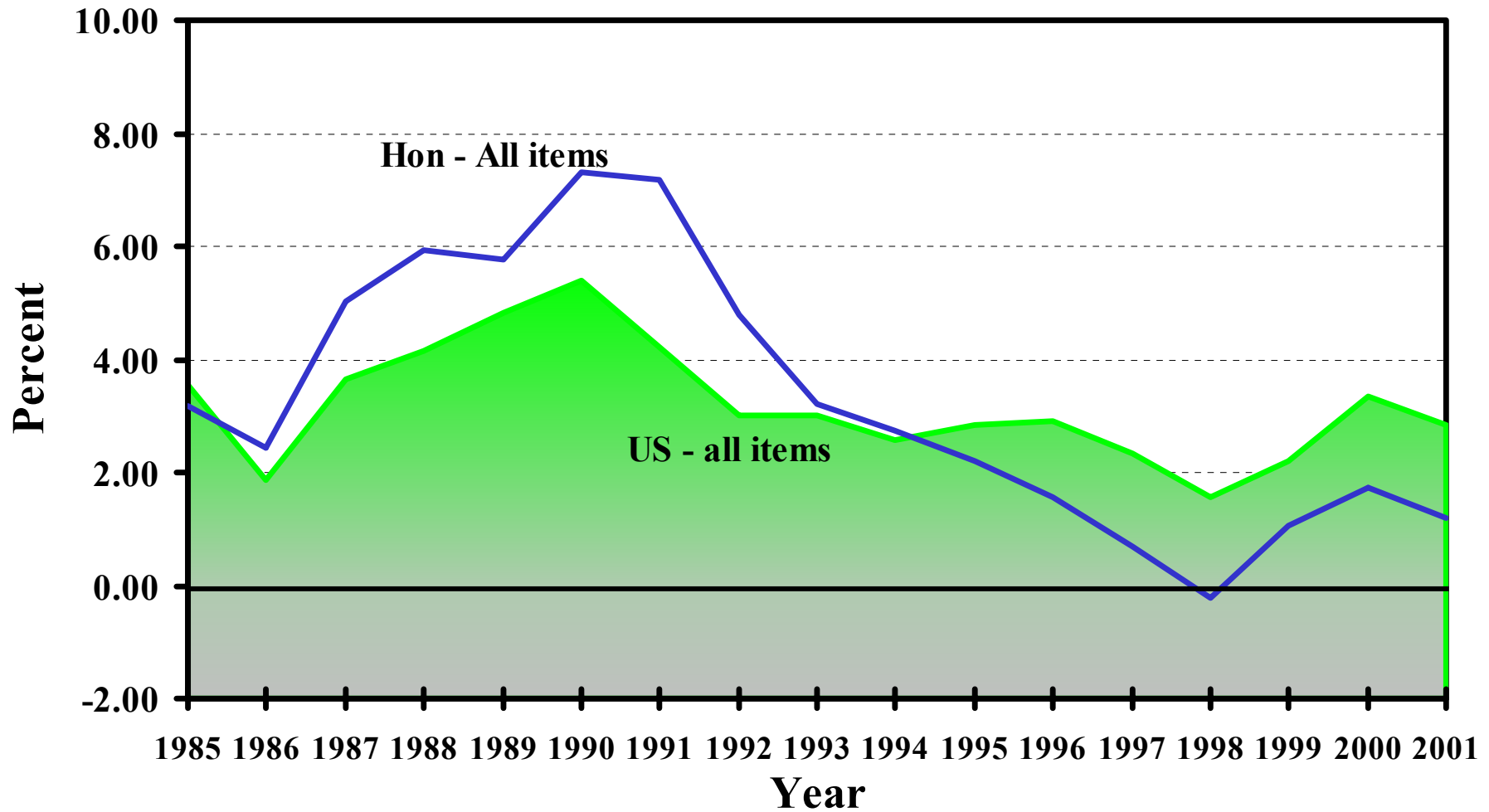
Growth in real personal income continues

Real Hawaii Personal Income Growth with Trend

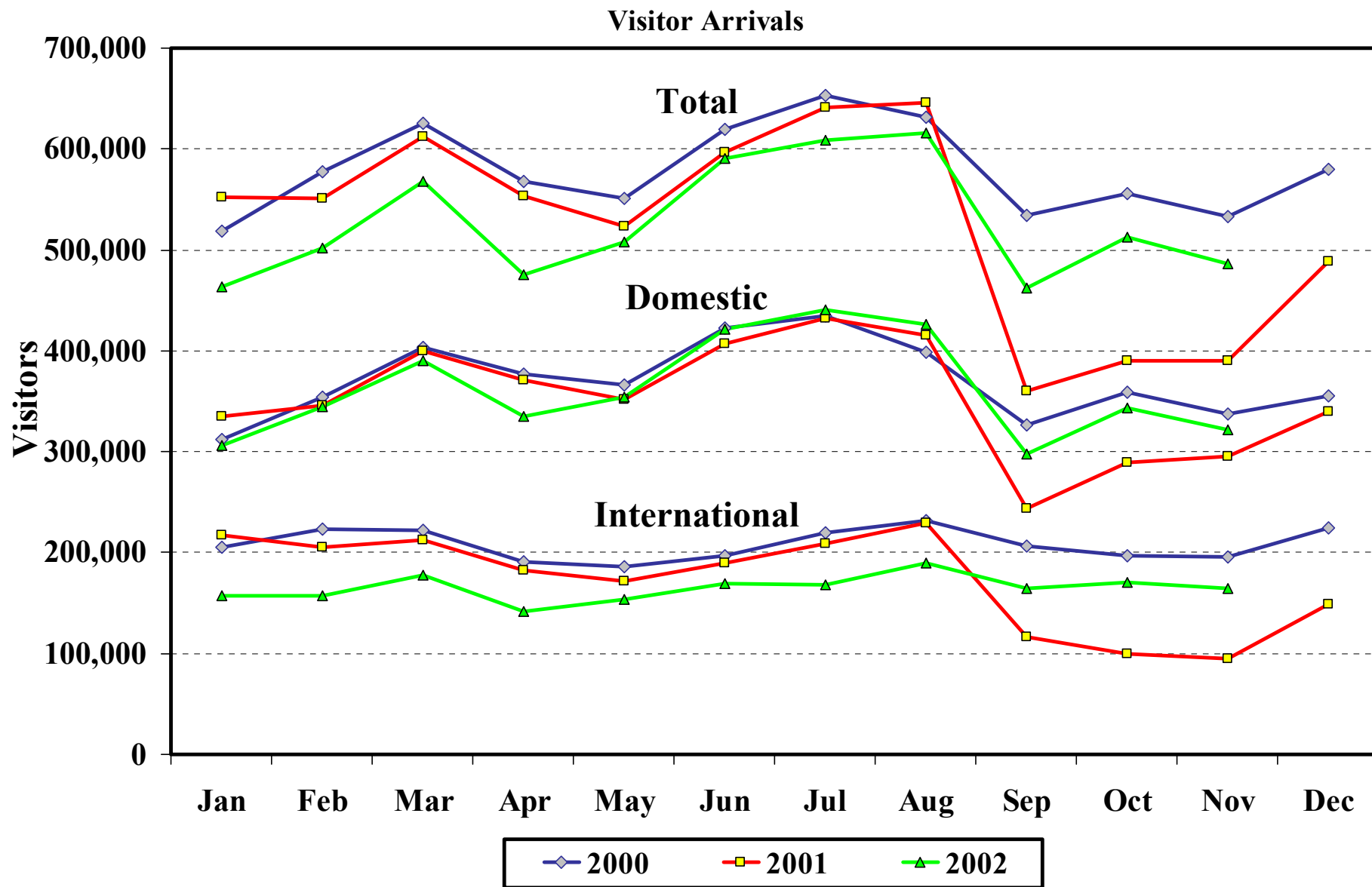
Percentage Change from Year-Earlier Quarter



Honolulu and US consumer inflation rates remain low

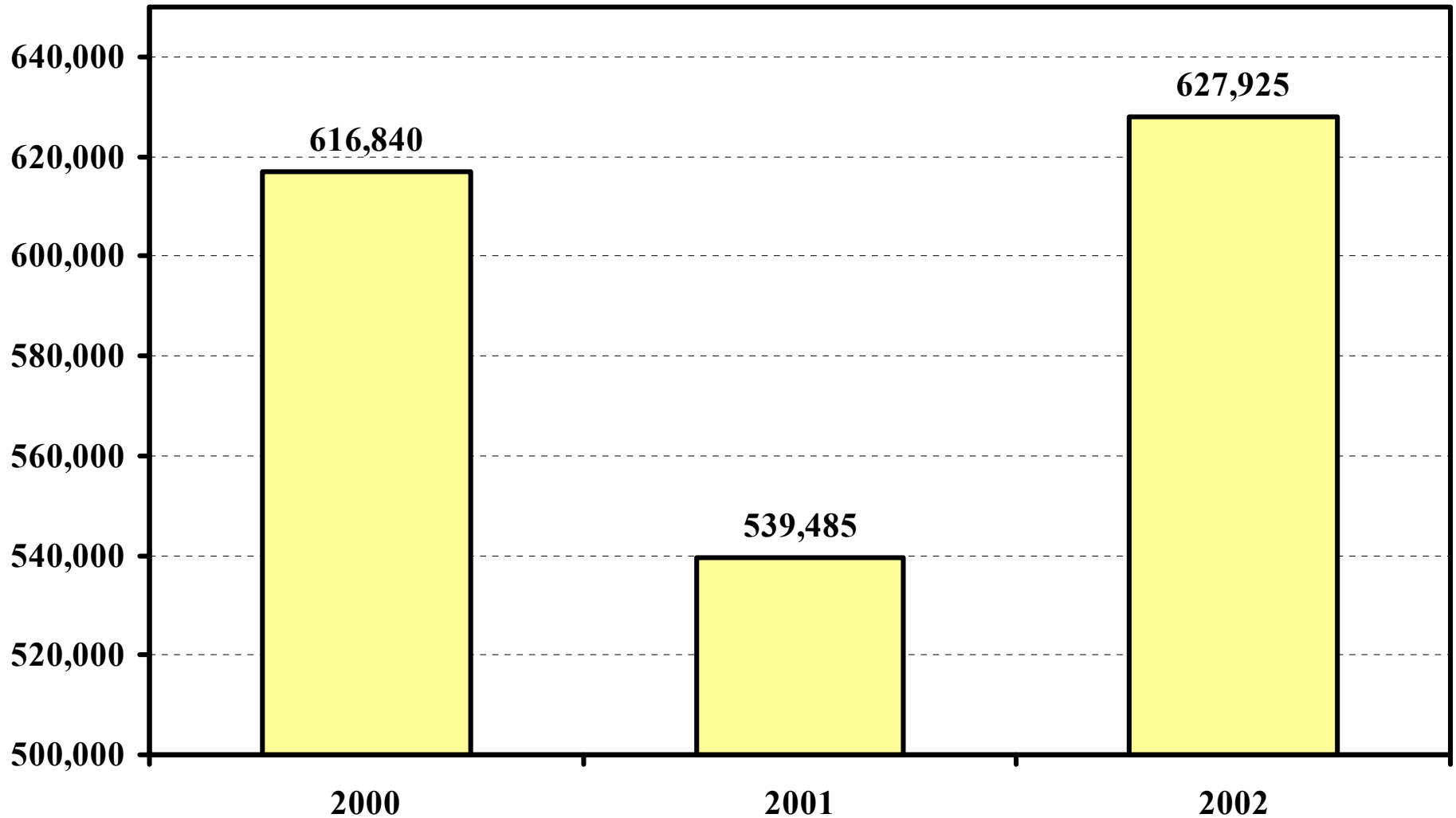


Monthly Visitor Arrivals 2000, 2001 & 2002



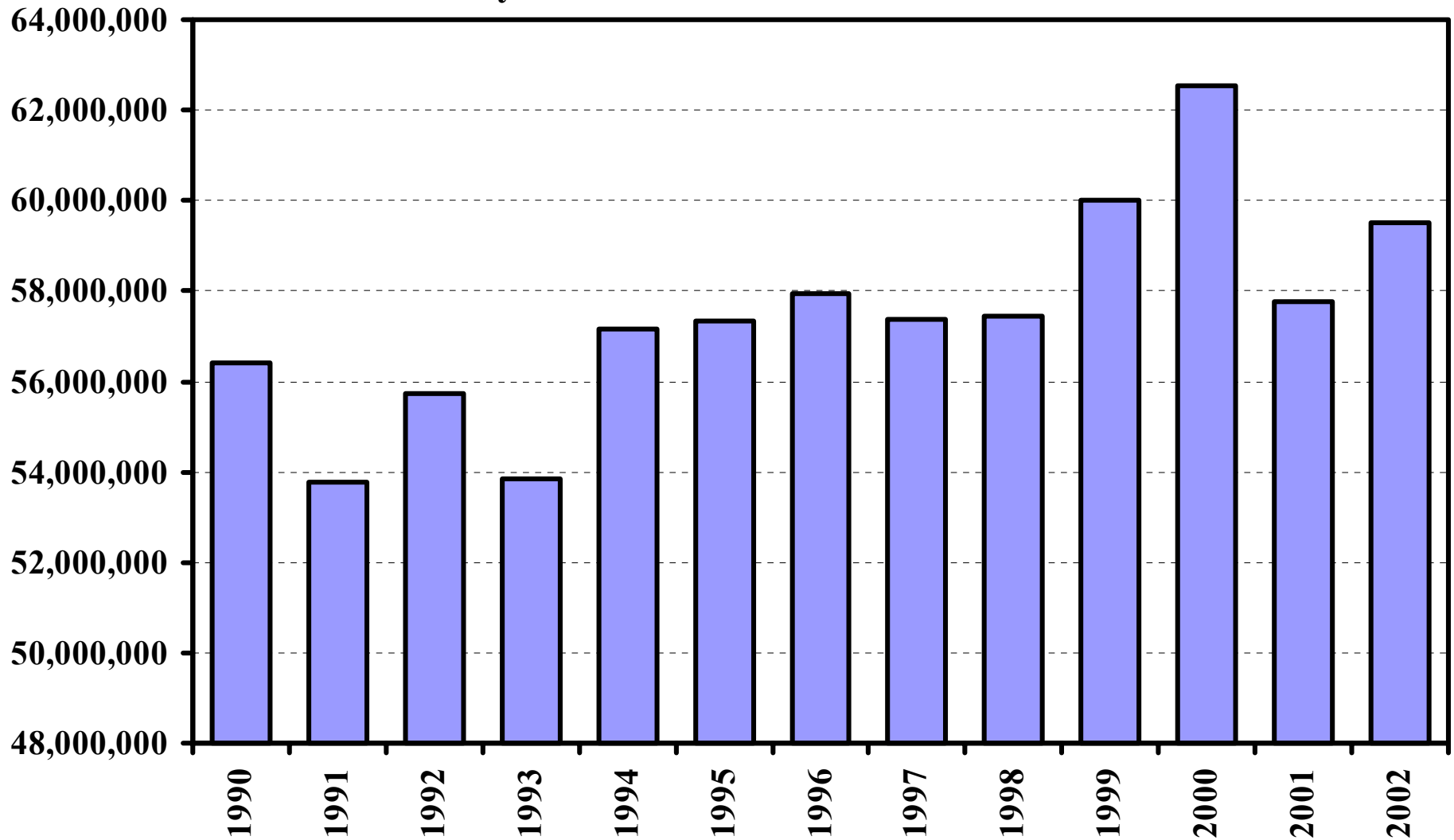
December Passenger Count 2000-2002

Total December Passenger Count



Visitor days are on the rise.

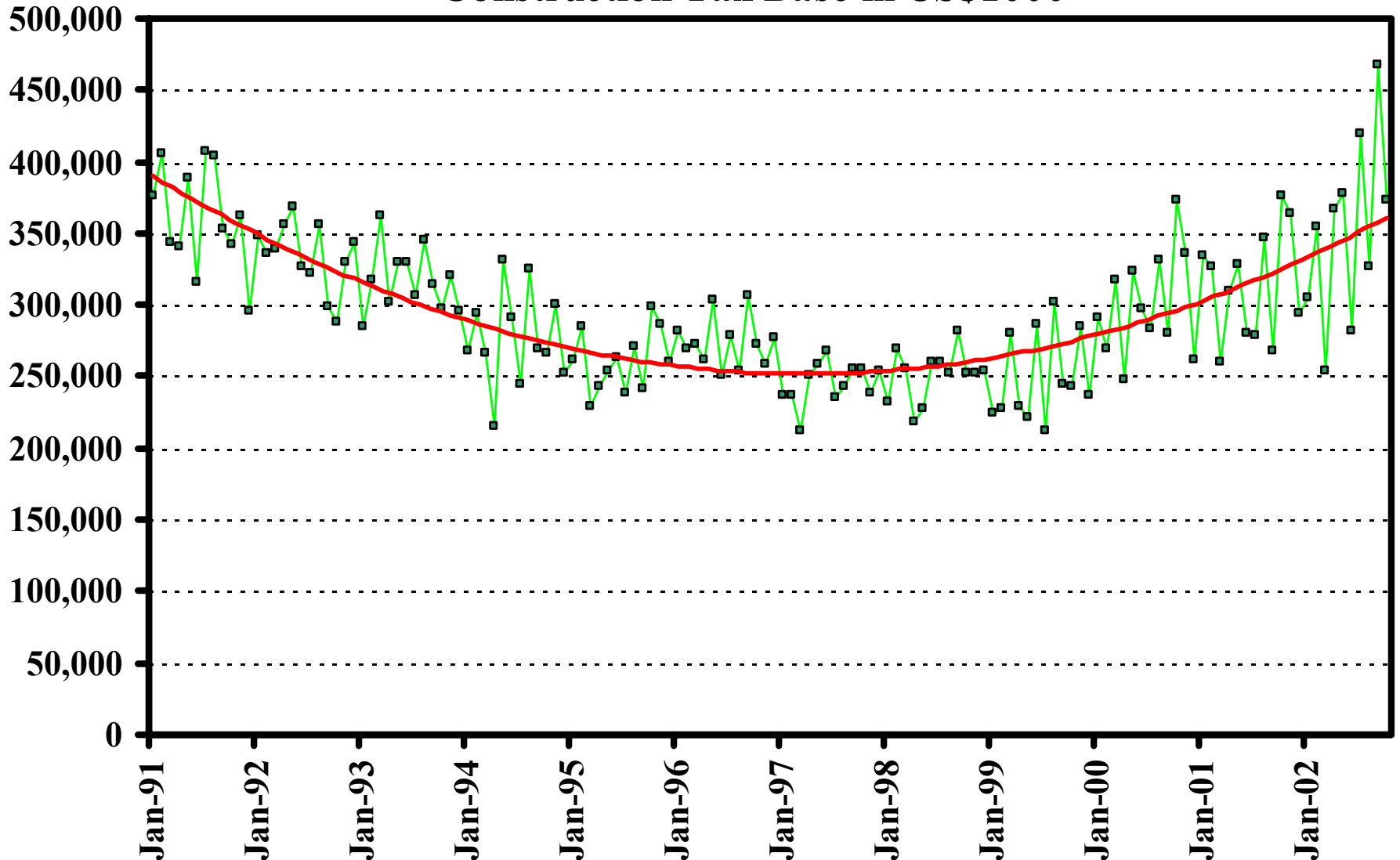
Total Visitor Days



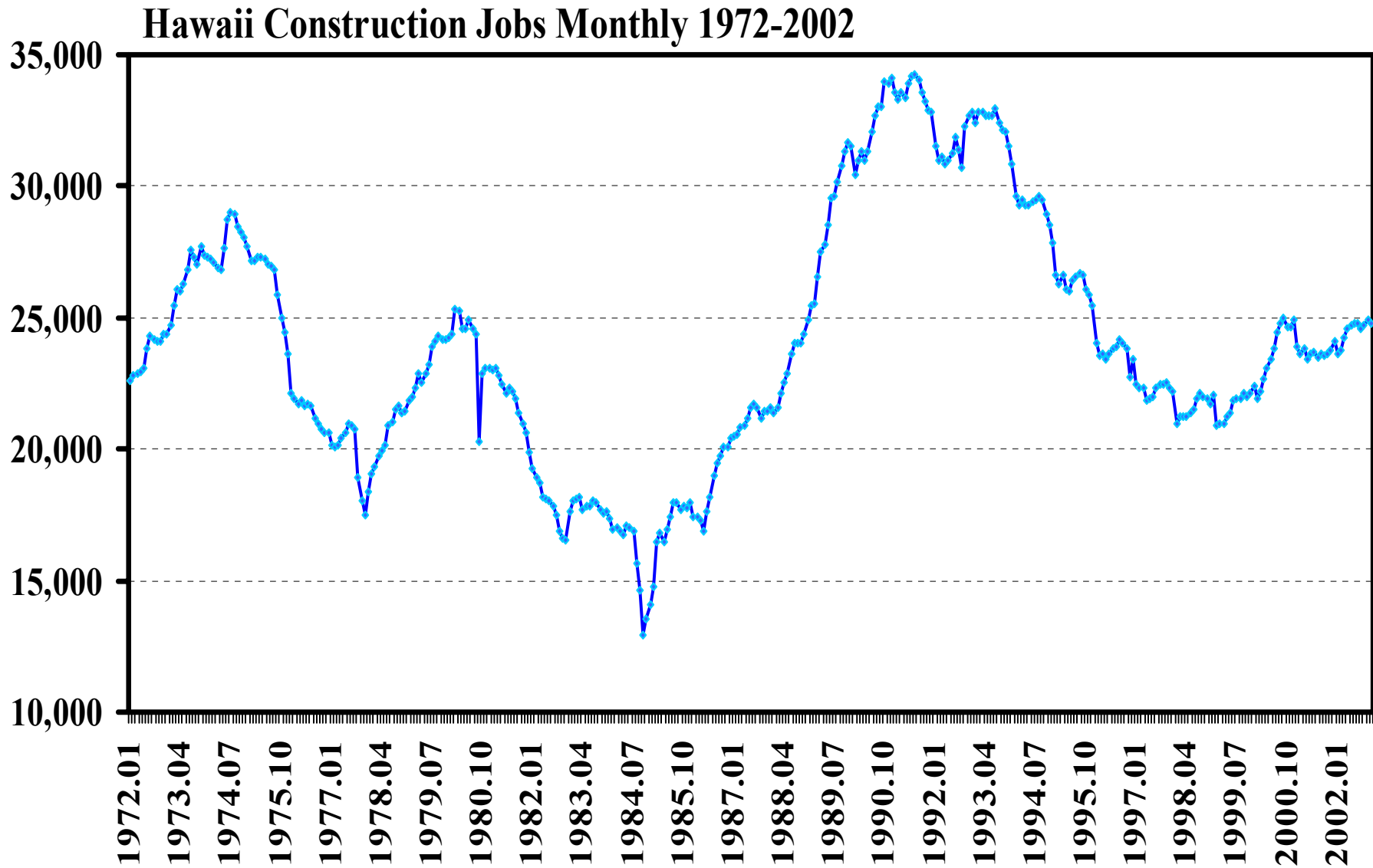
Note: year 2002 number is forecasted

Construction put in place has continued to grow

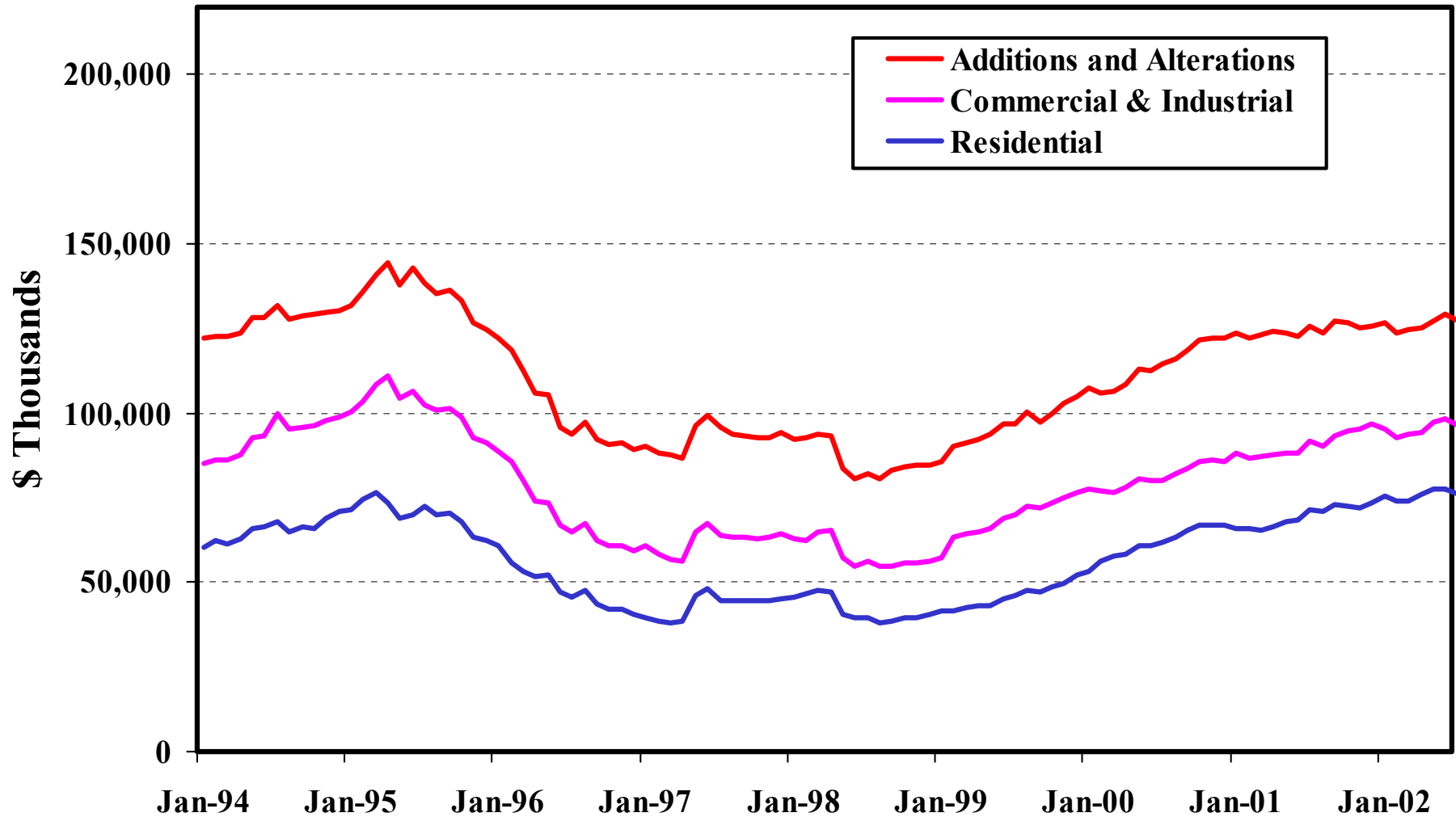
Construction Tax Base in US\$1000



Construction jobs are holding relatively steady



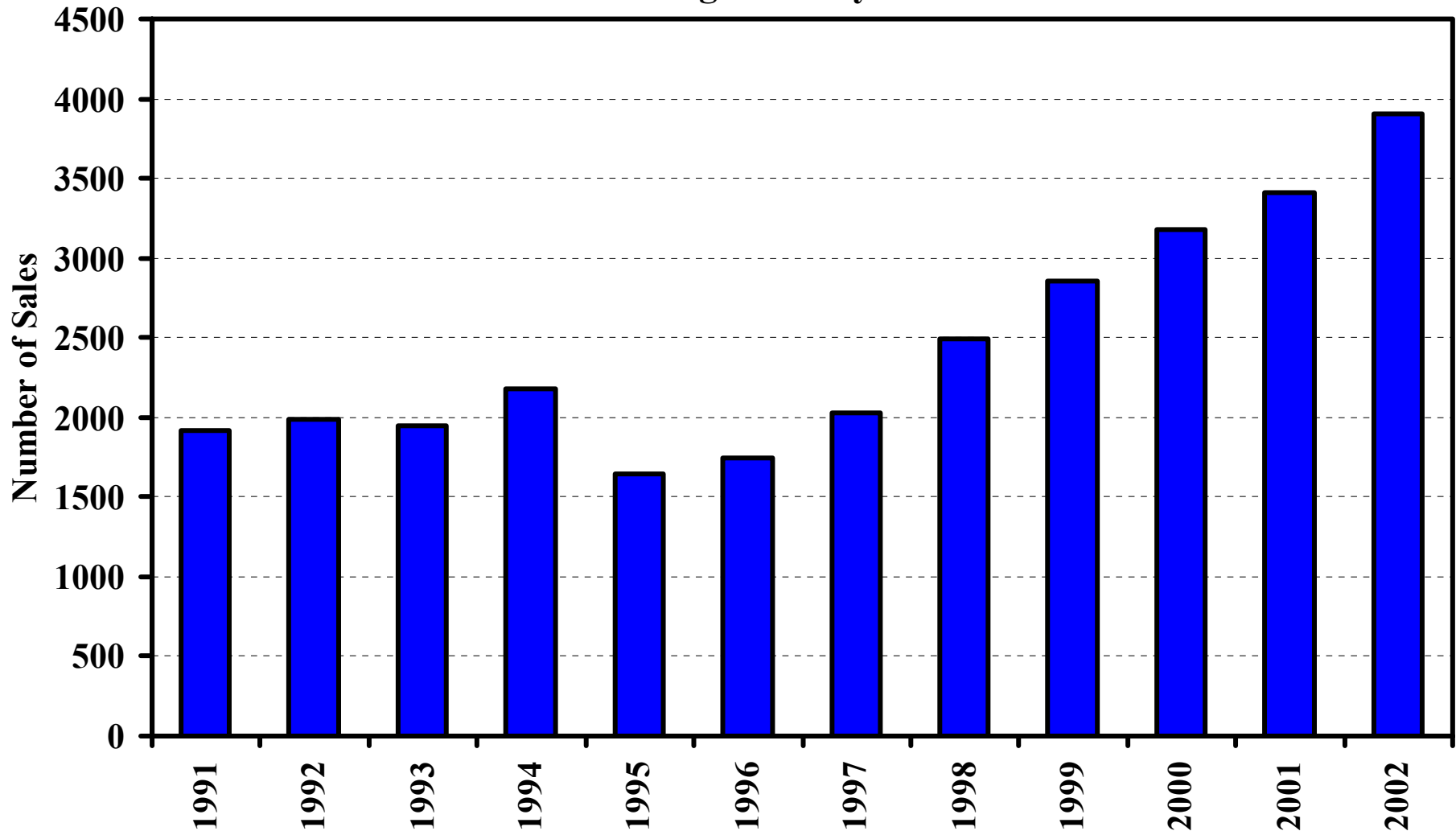
12-Month Moving Average of Building Authorization Components* (\$Thousands)



* For "Additions and Alterations" and "Commercial & Industrial" data does not include Kauai data, all data through September 2002.

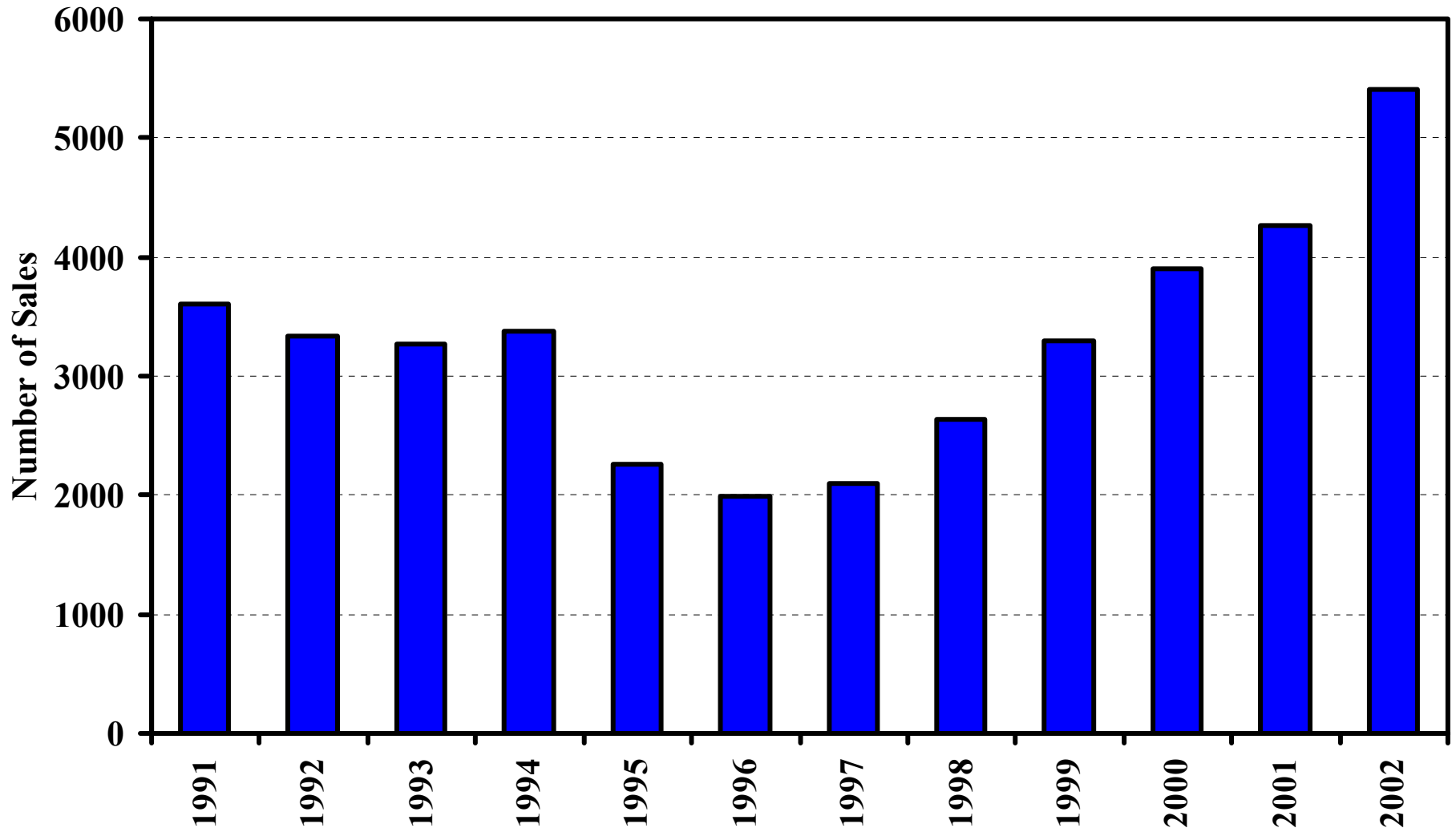
The number of single family home transactions is rising

Annual Number of Single Family Home Sales on Oahu



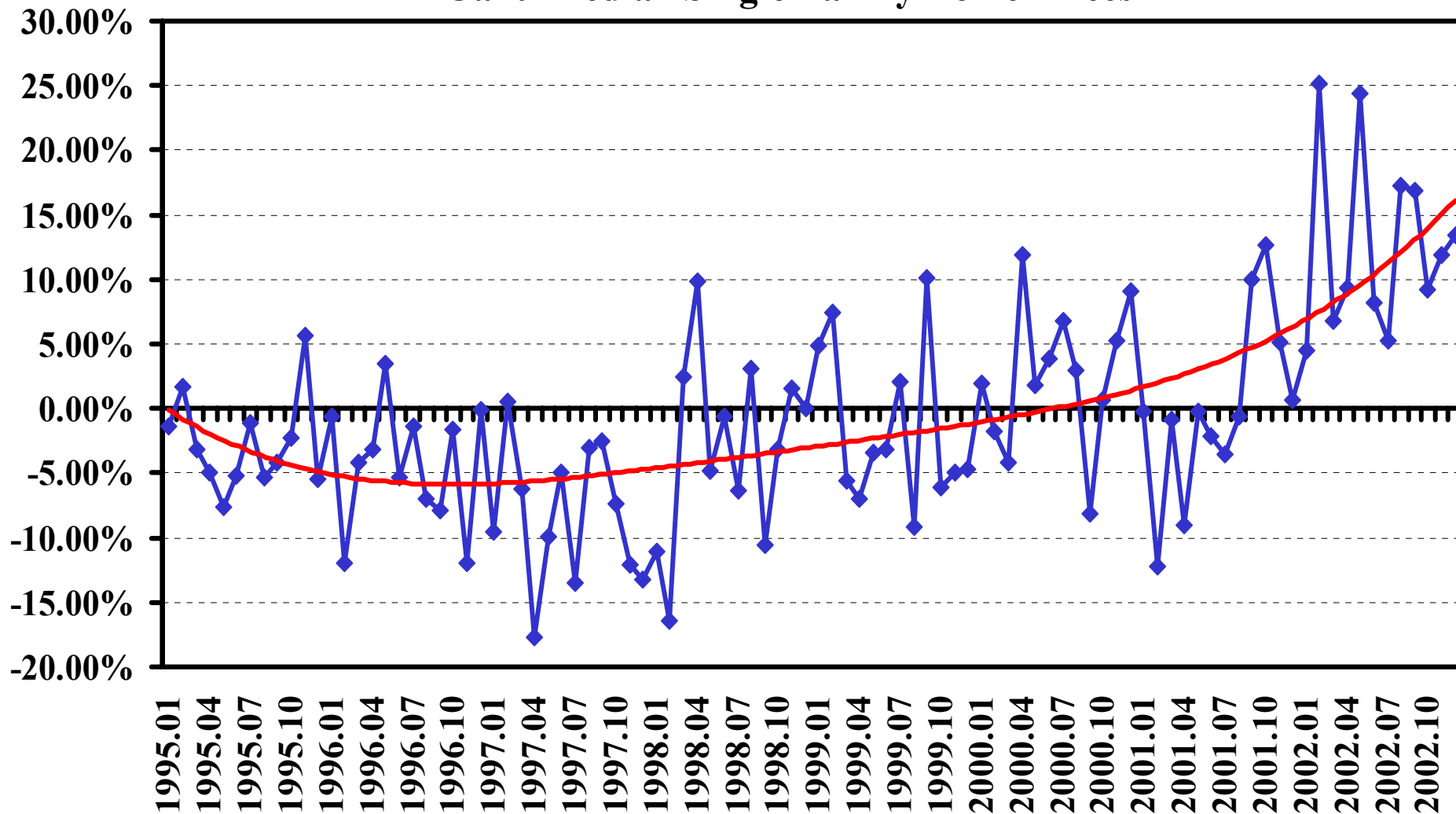
as is the growth of condominium sales

Annual Number of Condominium Sales on Oahu



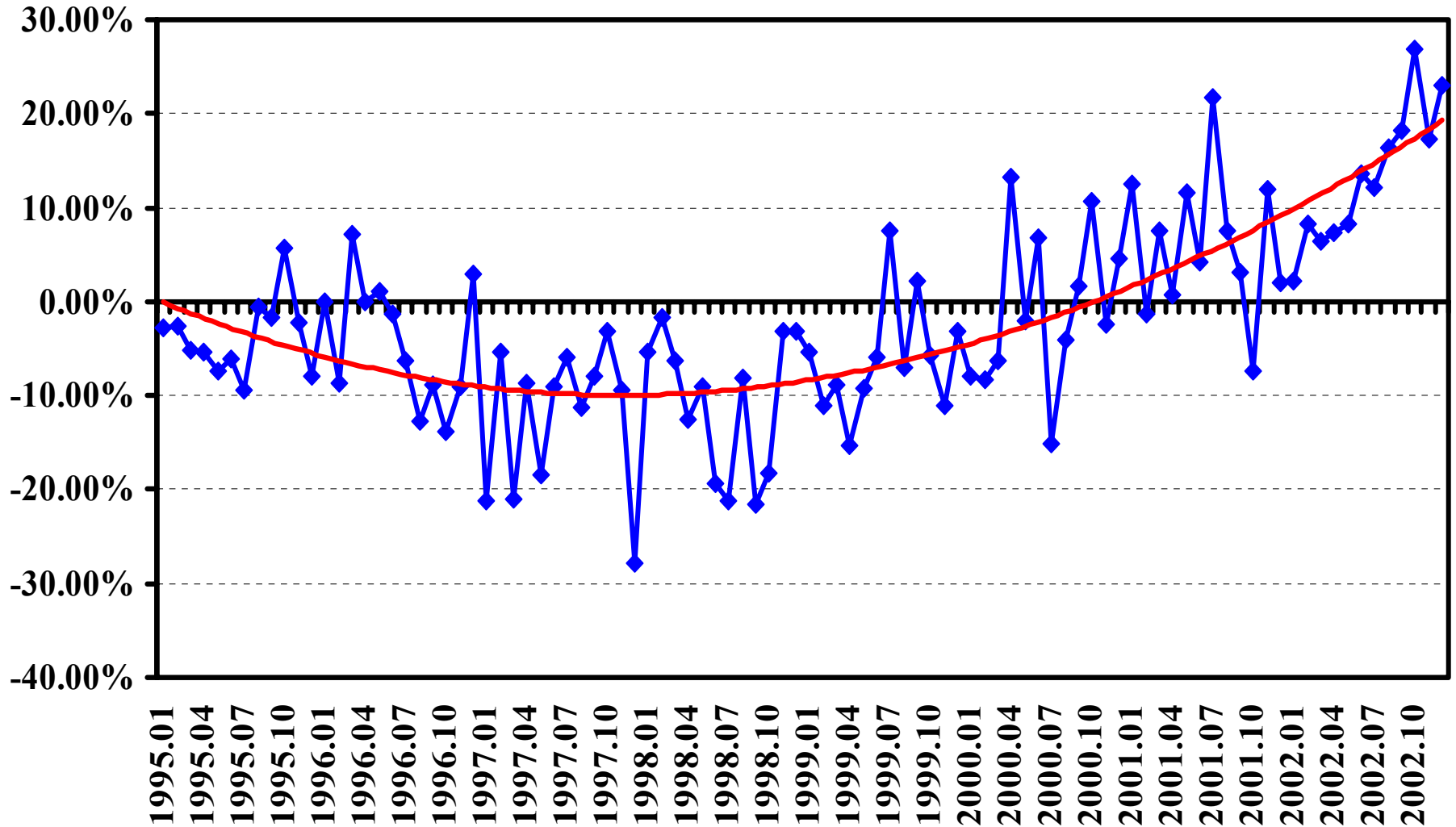
Single family home prices rose in 2002

Year-over-Year Percentage Change in
Oahu Median Single Family Home Prices



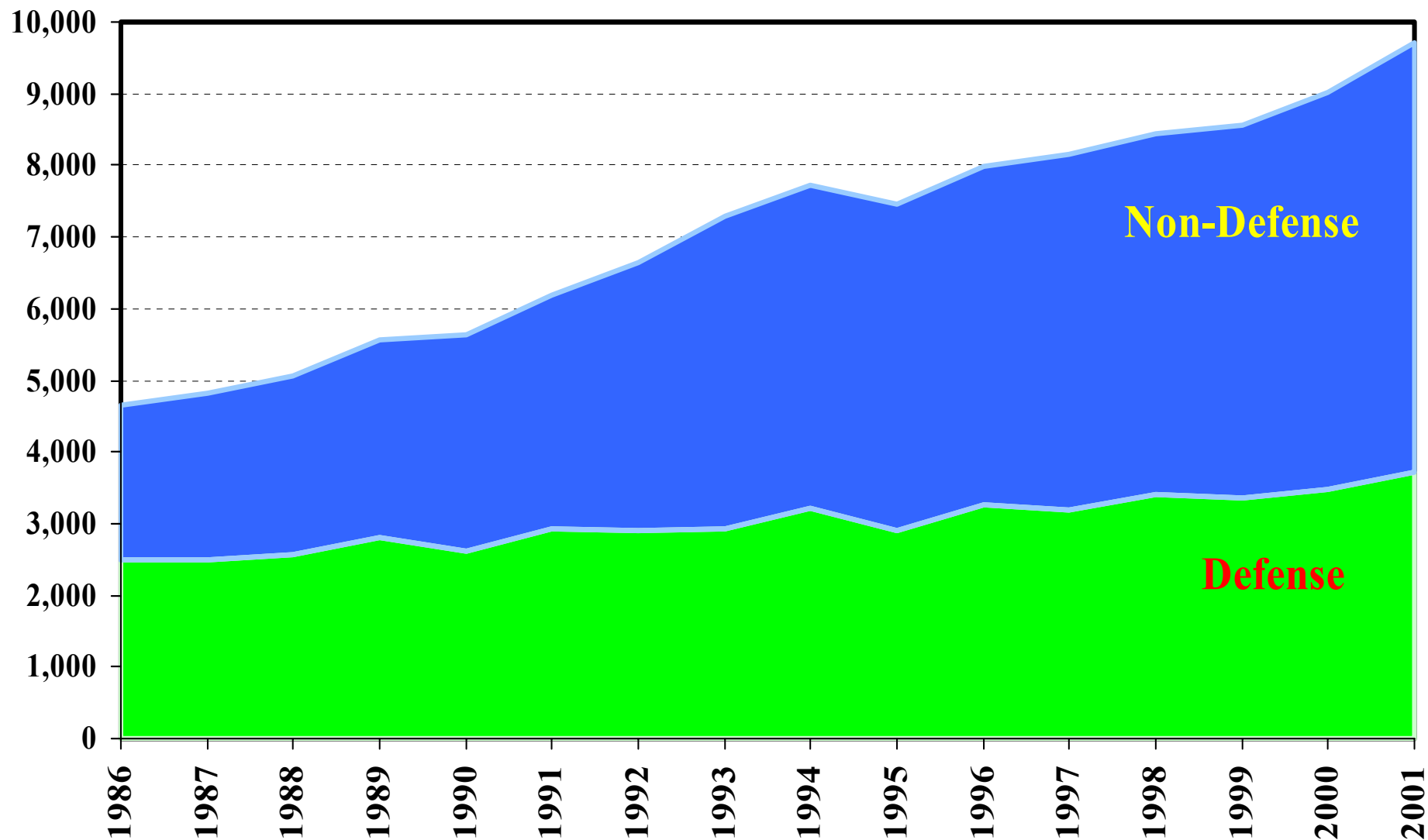
and condominium prices continued to rise

Year-over-Year Percentage Change in
Oahu Median Condominium Prices



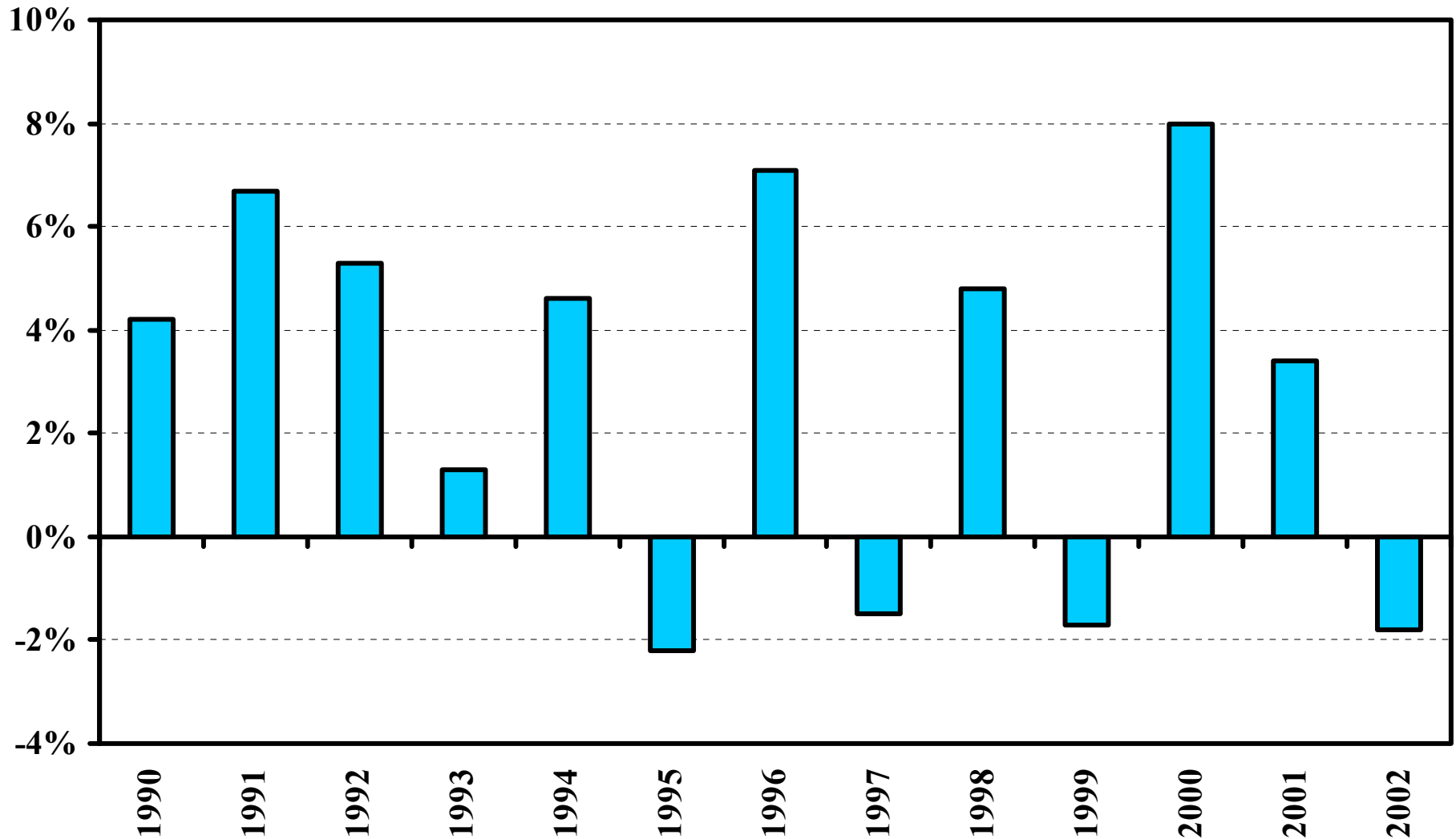
Federal Spending

in US\$ millions



Annual Change in General Fund Tax Revenues

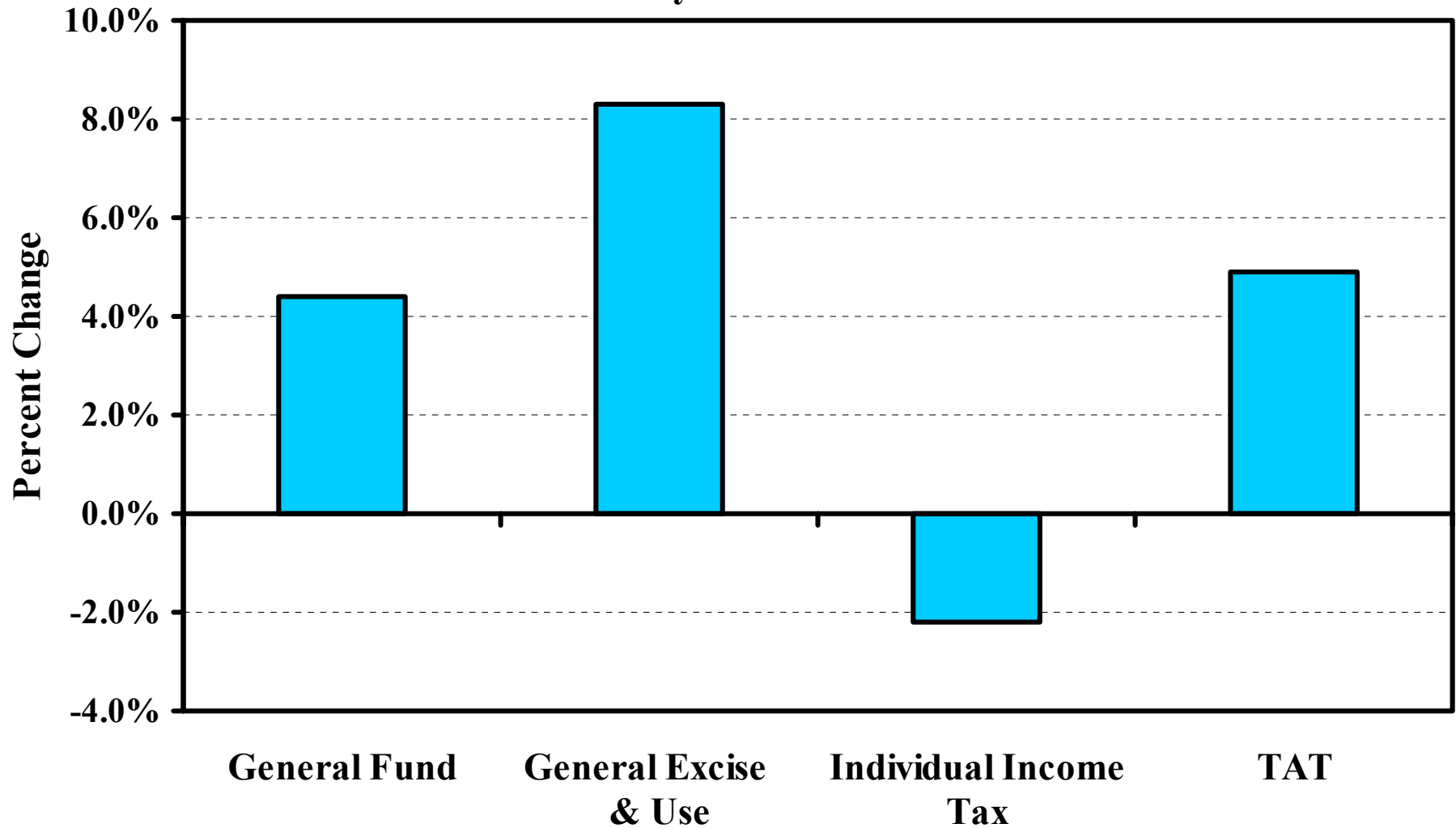
Annual Change-Calendar Year



* 2002 based on data through October.

Change in General Fund Tax Revenues

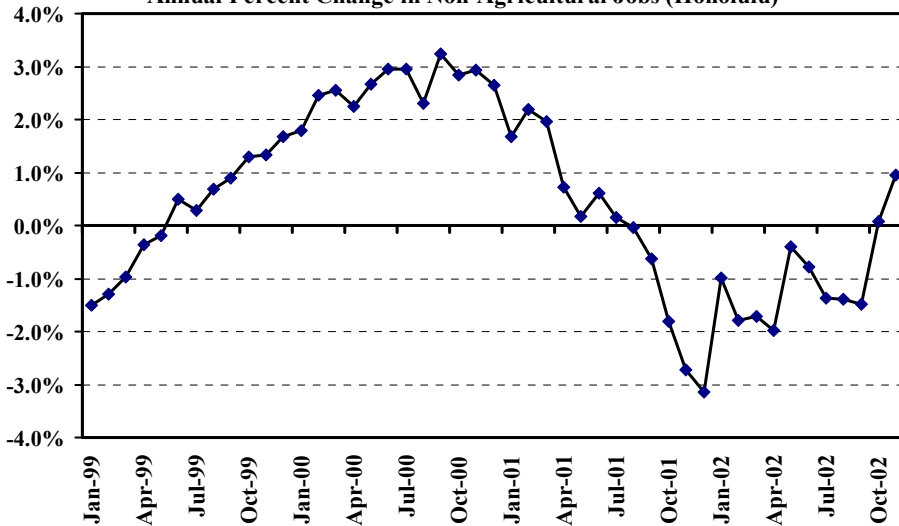
July-Dec 2002



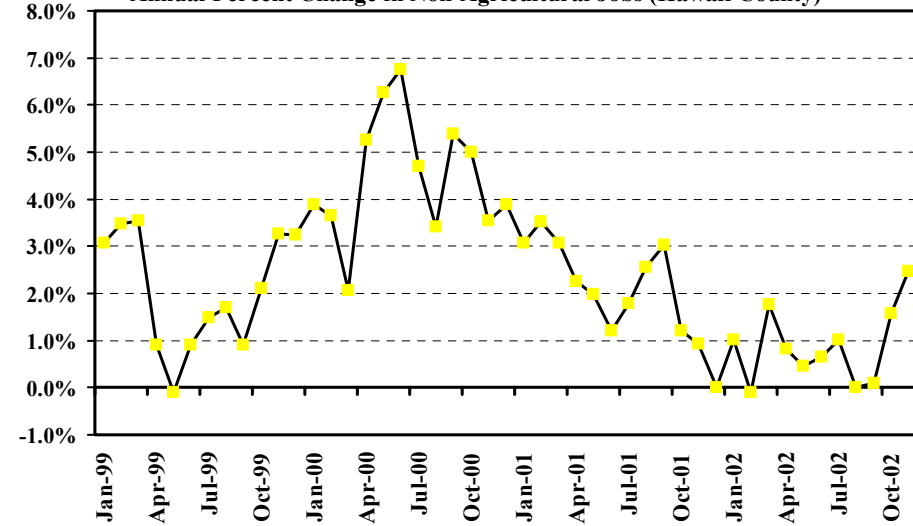
The Counties

Job growth rates have been rising in all counties

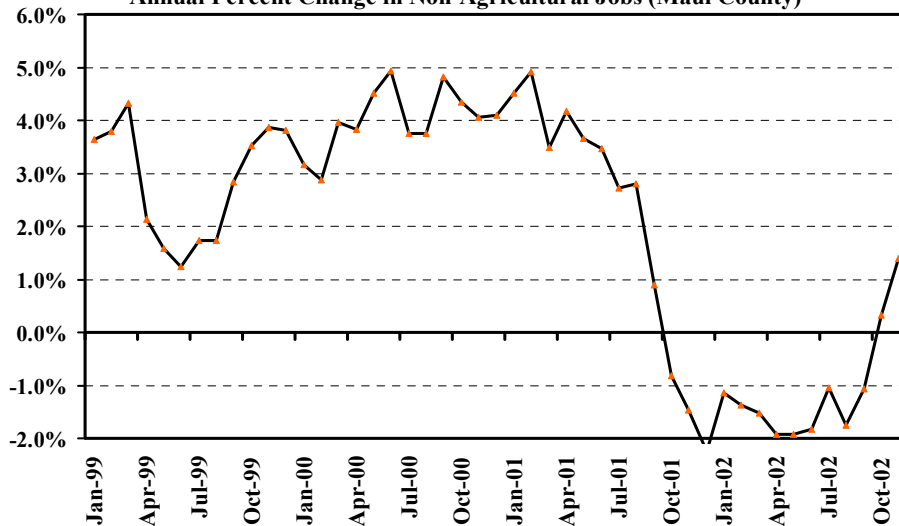
Annual Percent Change in Non-Agricultural Jobs (Honolulu)



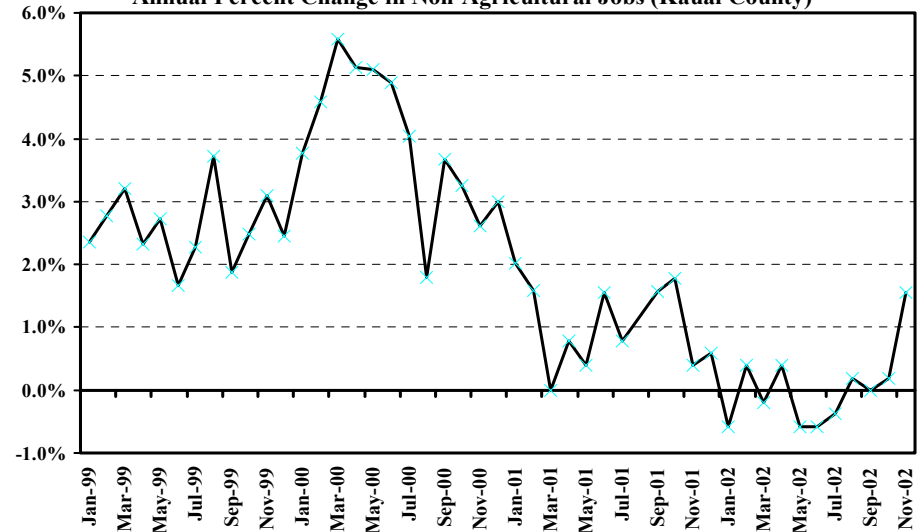
Annual Percent Change in Non-Agricultural Jobs (Hawaii County)



Annual Percent Change in Non-Agricultural Jobs (Maui County)

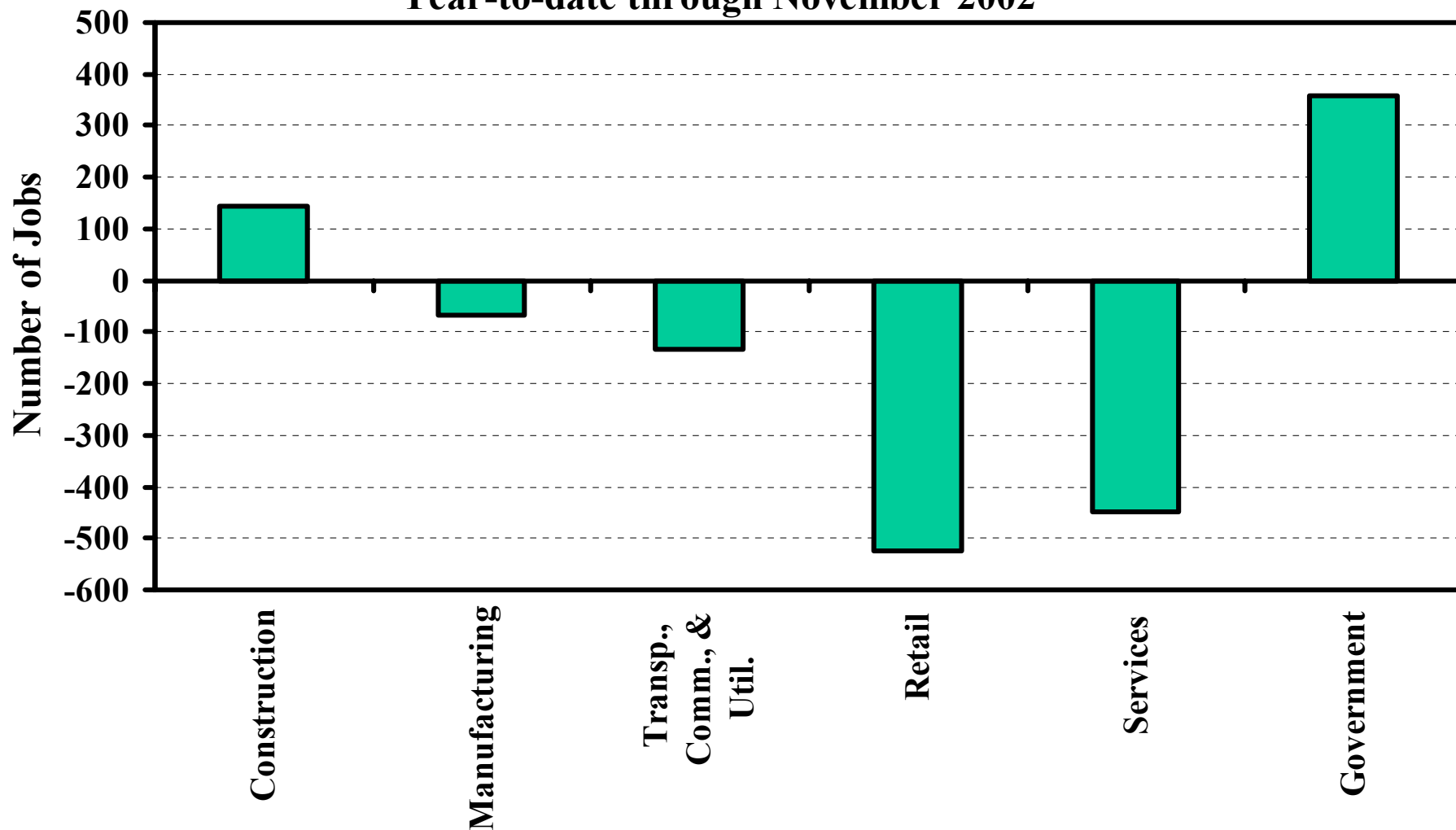


Annual Percent Change in Non-Agricultural Jobs (Kauai County)



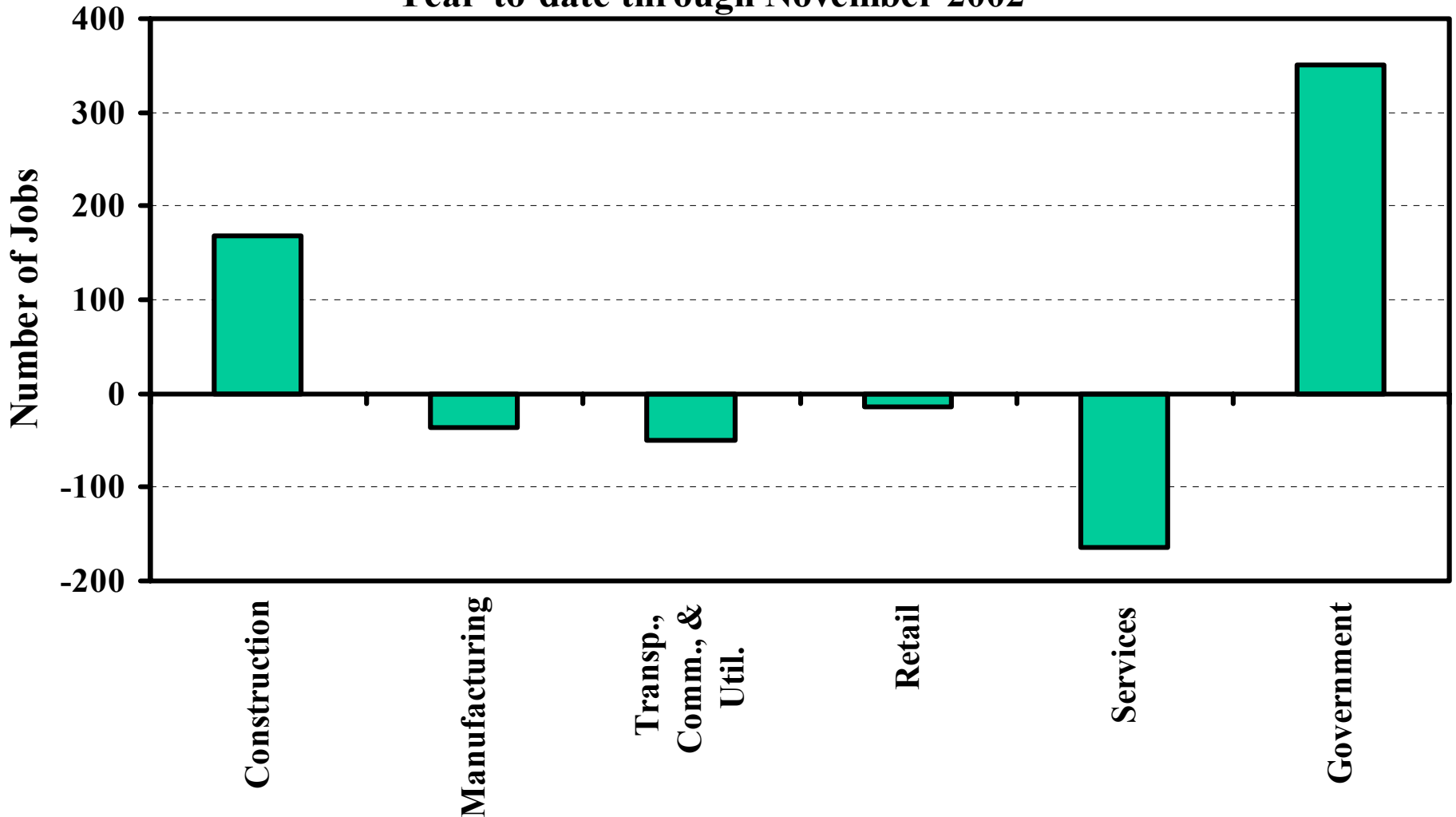
On Maui, job growth has been lead by government & construction

Sources of Job Growth
Year-to-date through November 2002

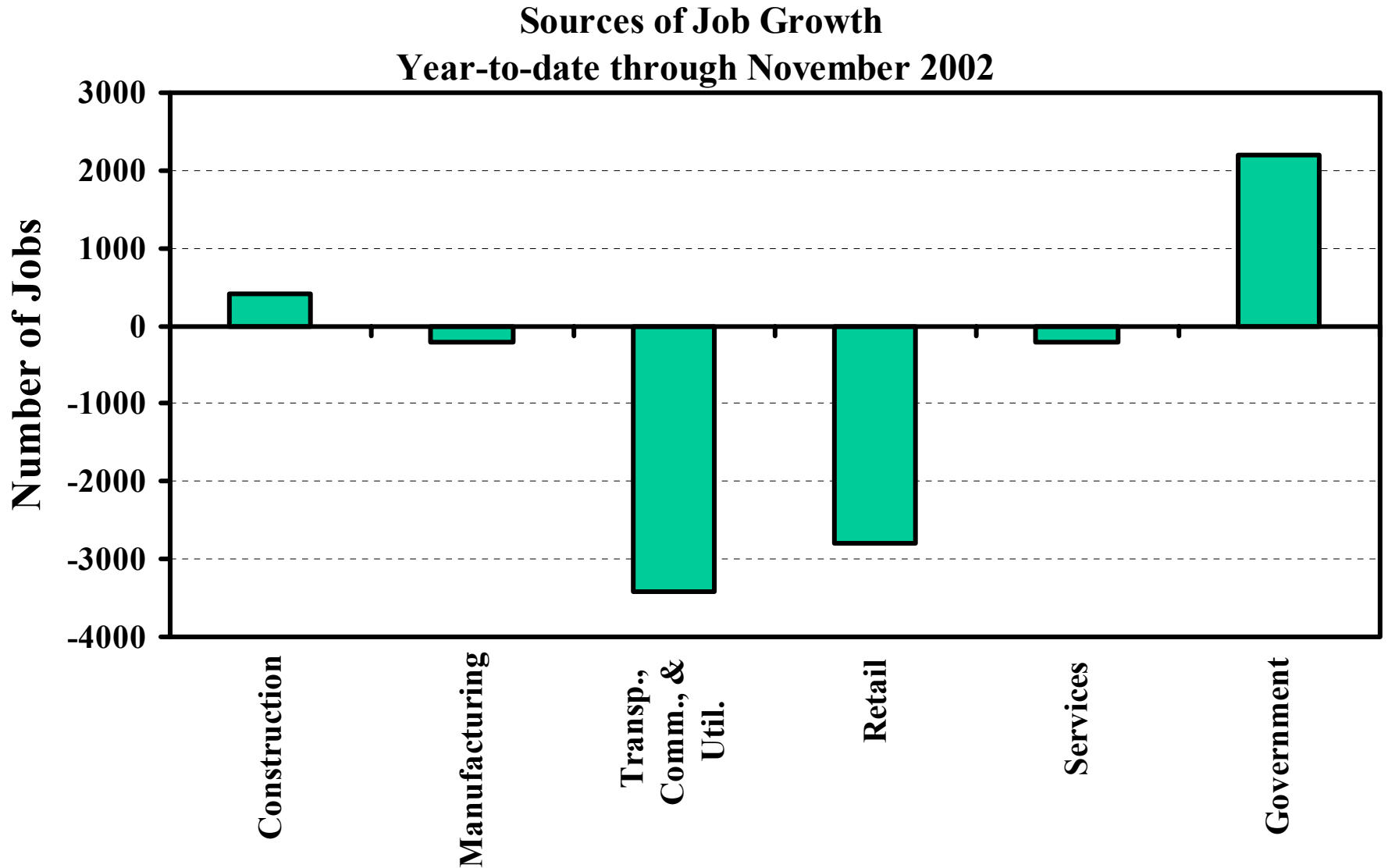


On Hawaii, retail did not decline as much as in the other counties

Sources of Job Growth
Year-to-date through November 2002



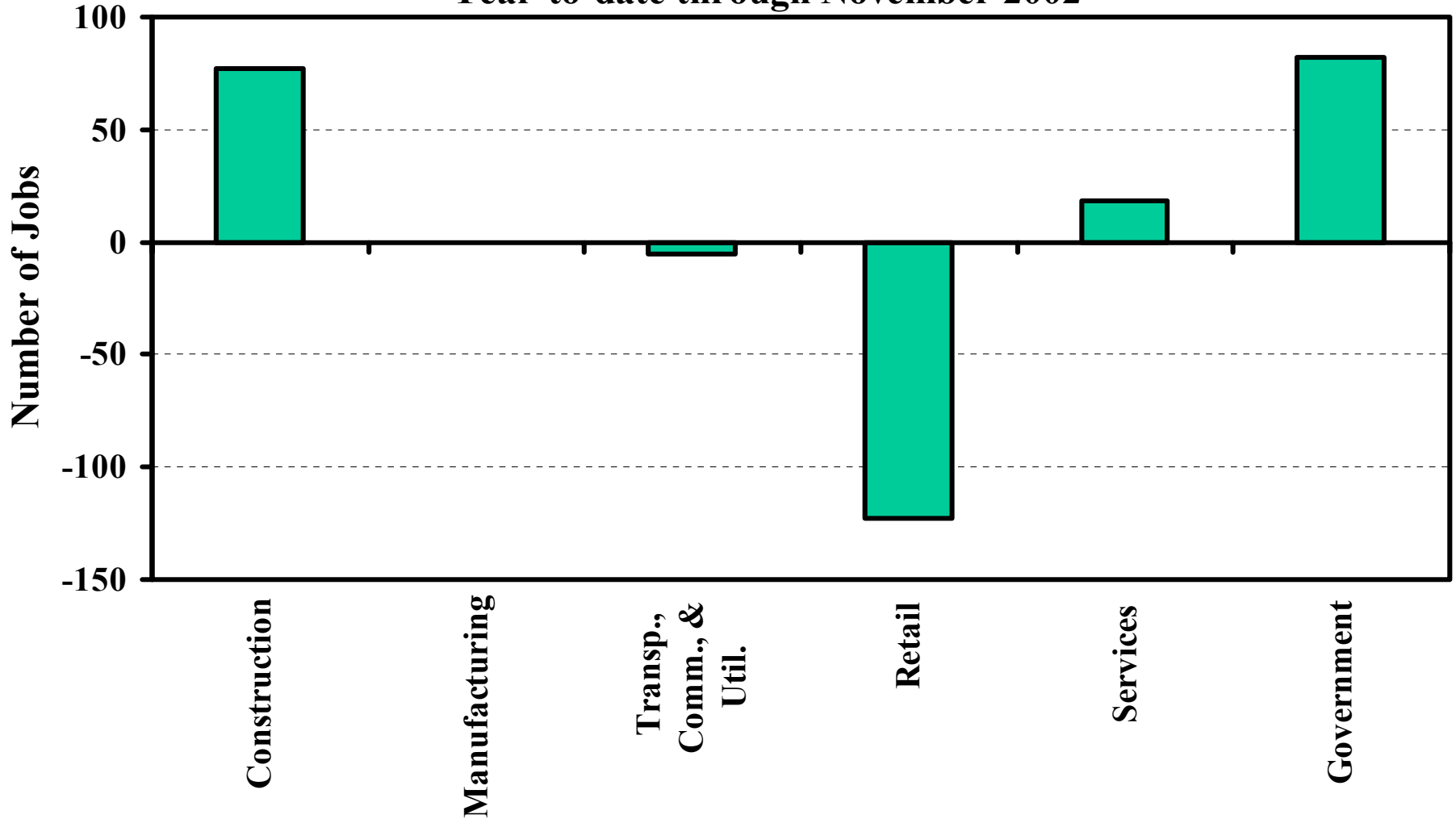
In Honolulu, transportation jobs lead the decline



On Kauai, retail was the only sector with a noticeable decrease in jobs

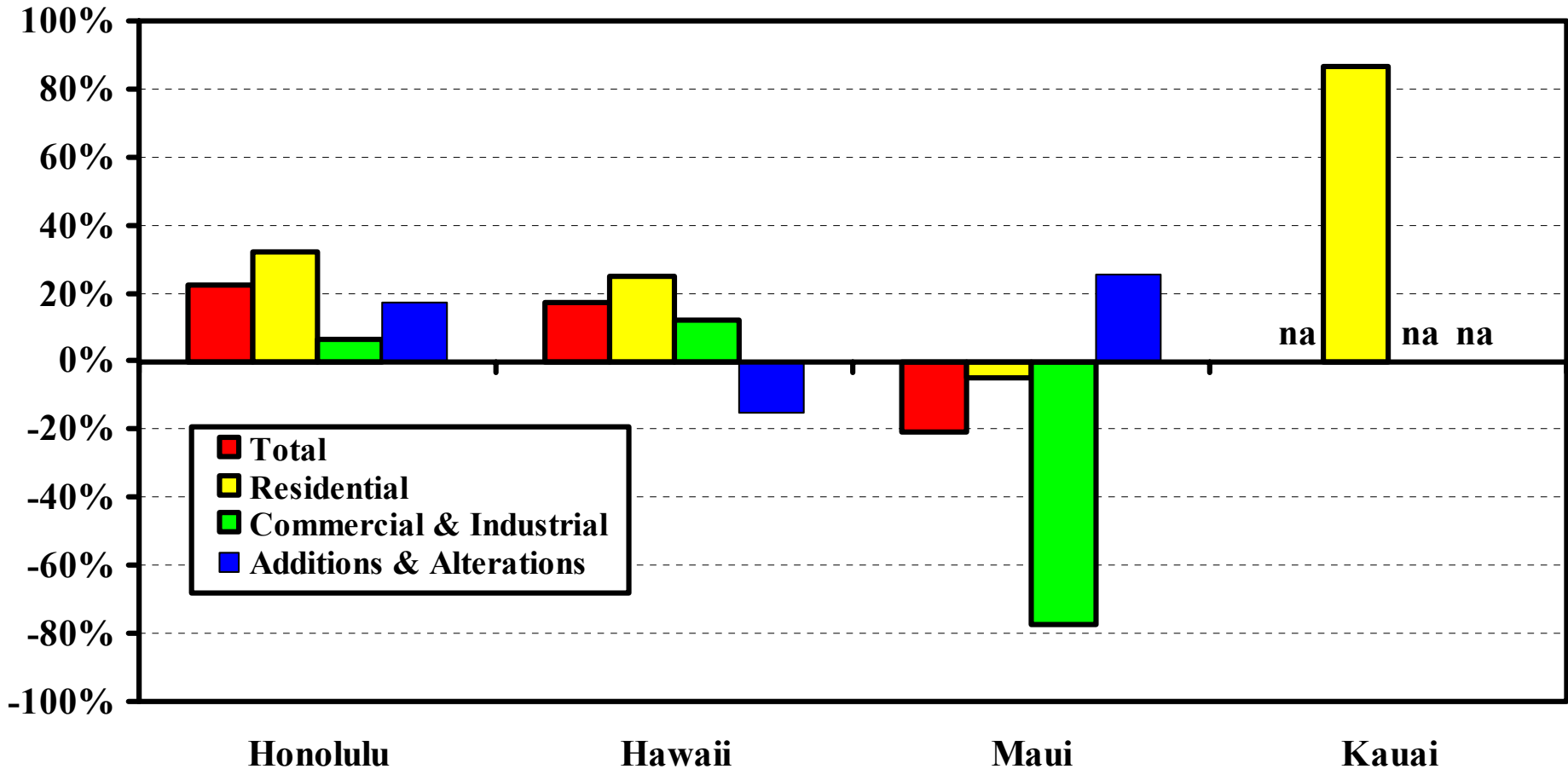
Sources of Job Growth

Year-to-date through November 2002



County Building Permit Growth

Annual percent change in building permit values
year through November 2002

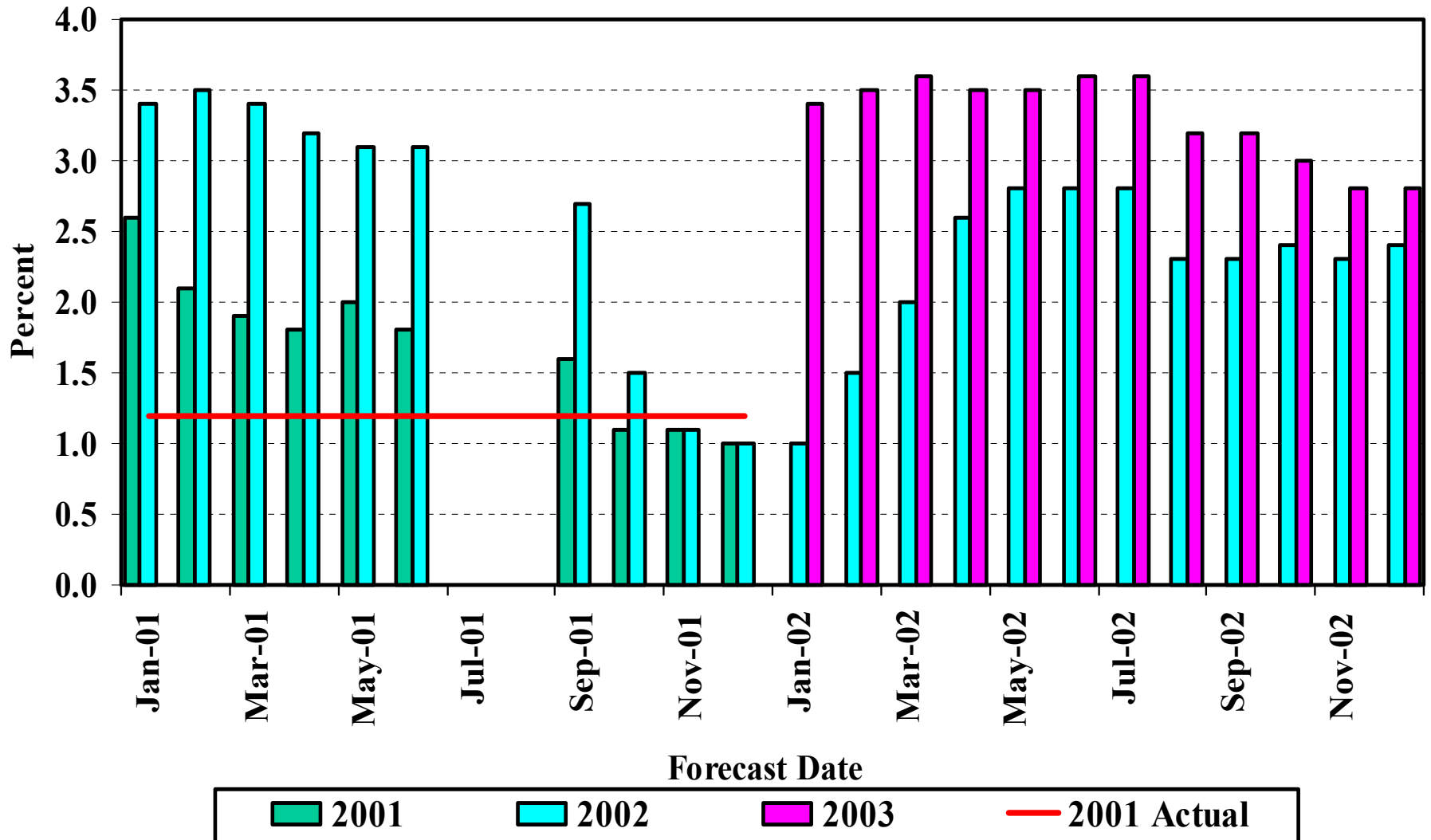


Maui number reflect year through September 2002.
For Kauai 2002 data only available for Residential.

External Conditions

Blue Chip Forecast for U.S.

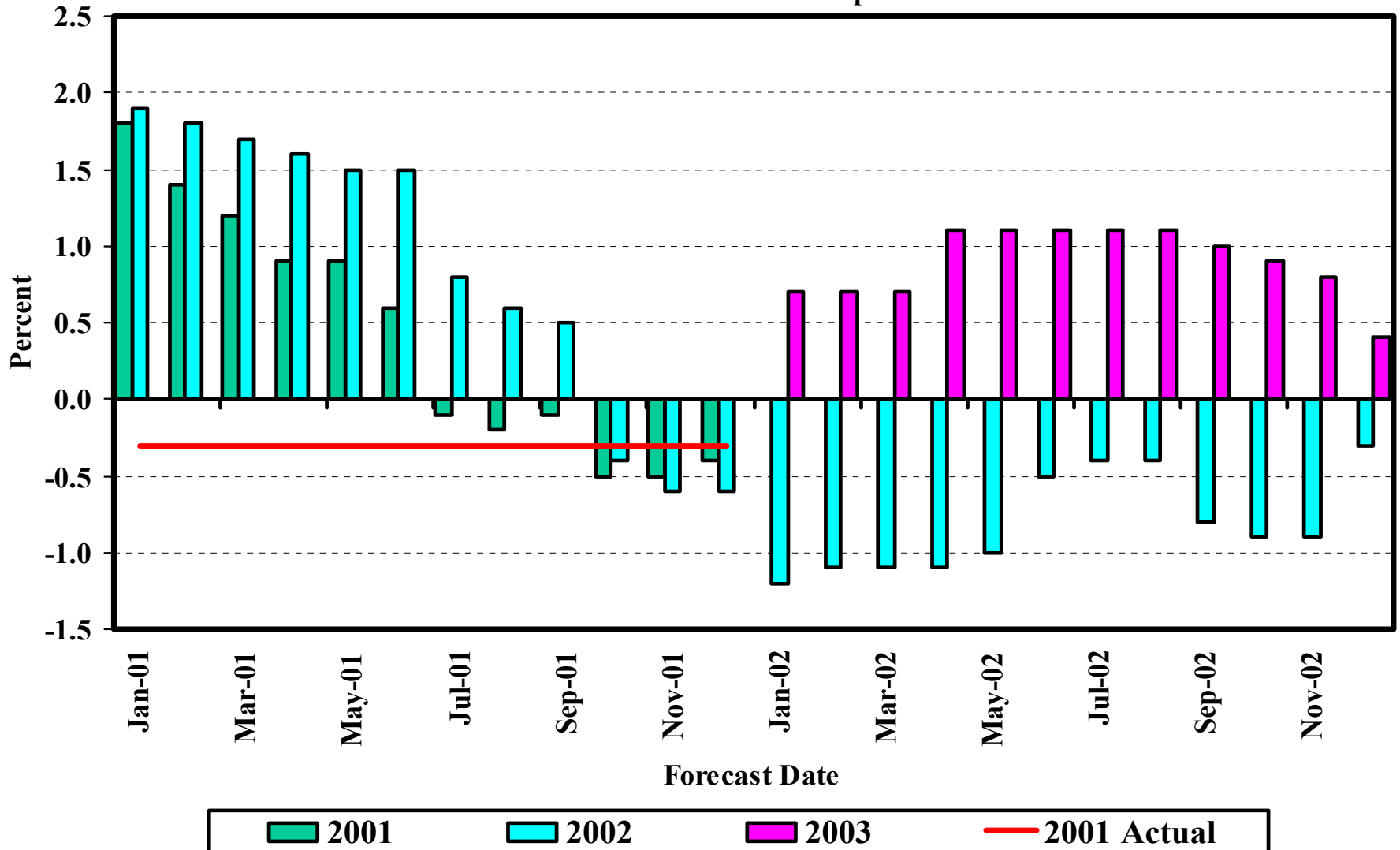
Blue Chip Forecasts of U.S. Real GDP Growth



Consensus Forecasts --USA

Forecast for Japan

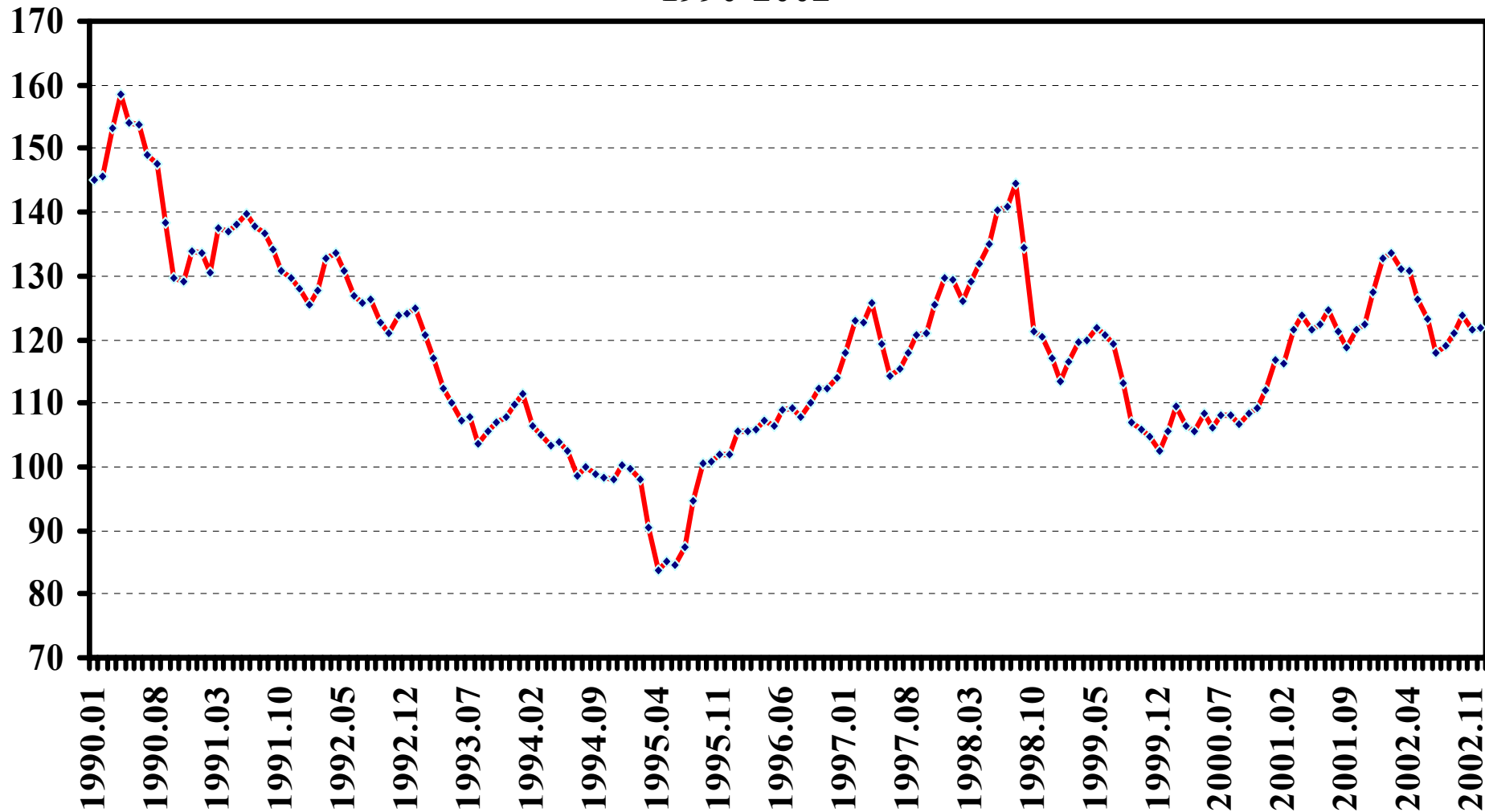
Consensus Forecasts - USA: Forecasts of Japan Real GDP Growth



A weak Yen makes Hawaii less attractive to Japanese visitors

Yen-Dollar Exchange Rate

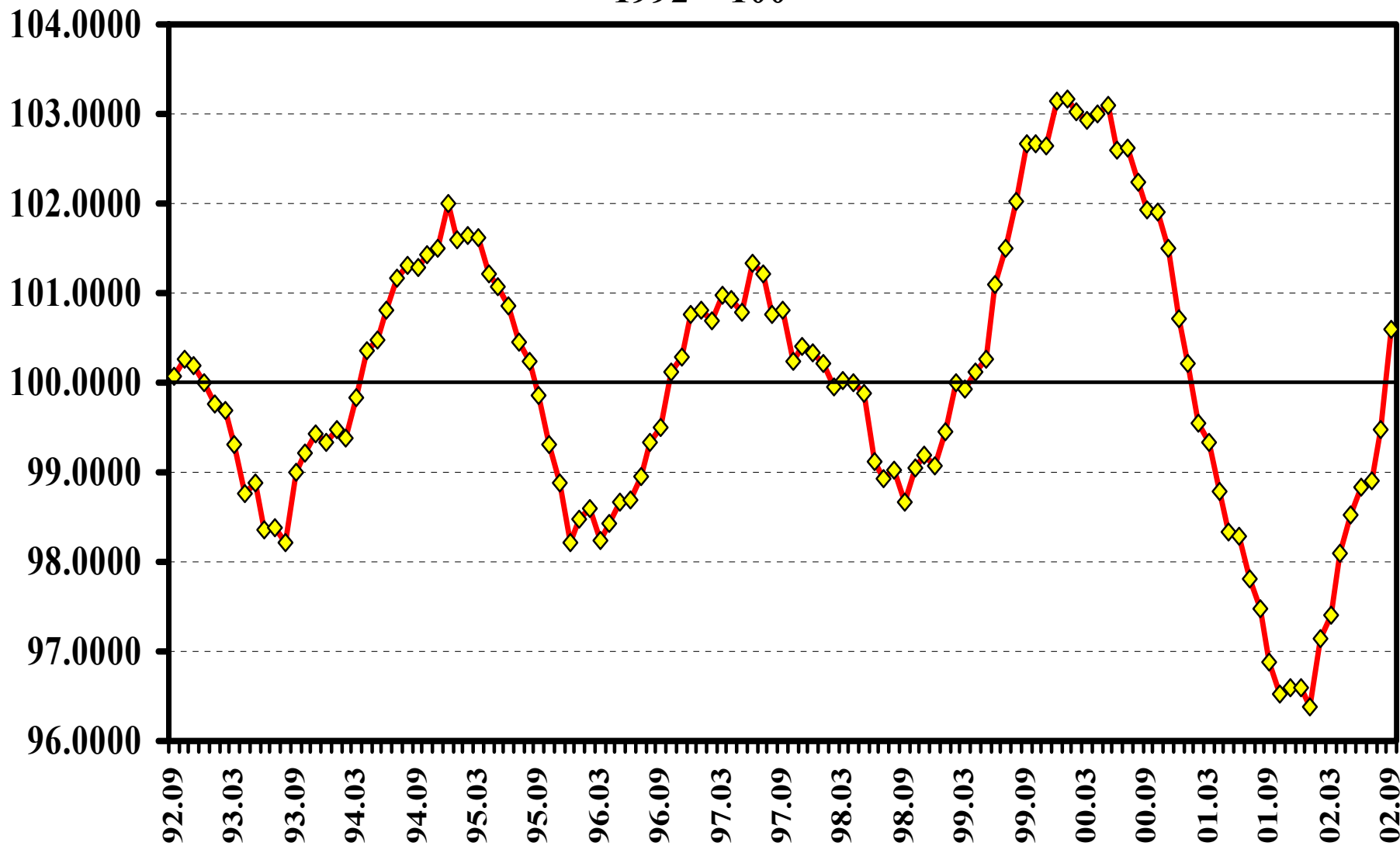
1990-2002



Forecast for Hawaii

Leading Economic Index

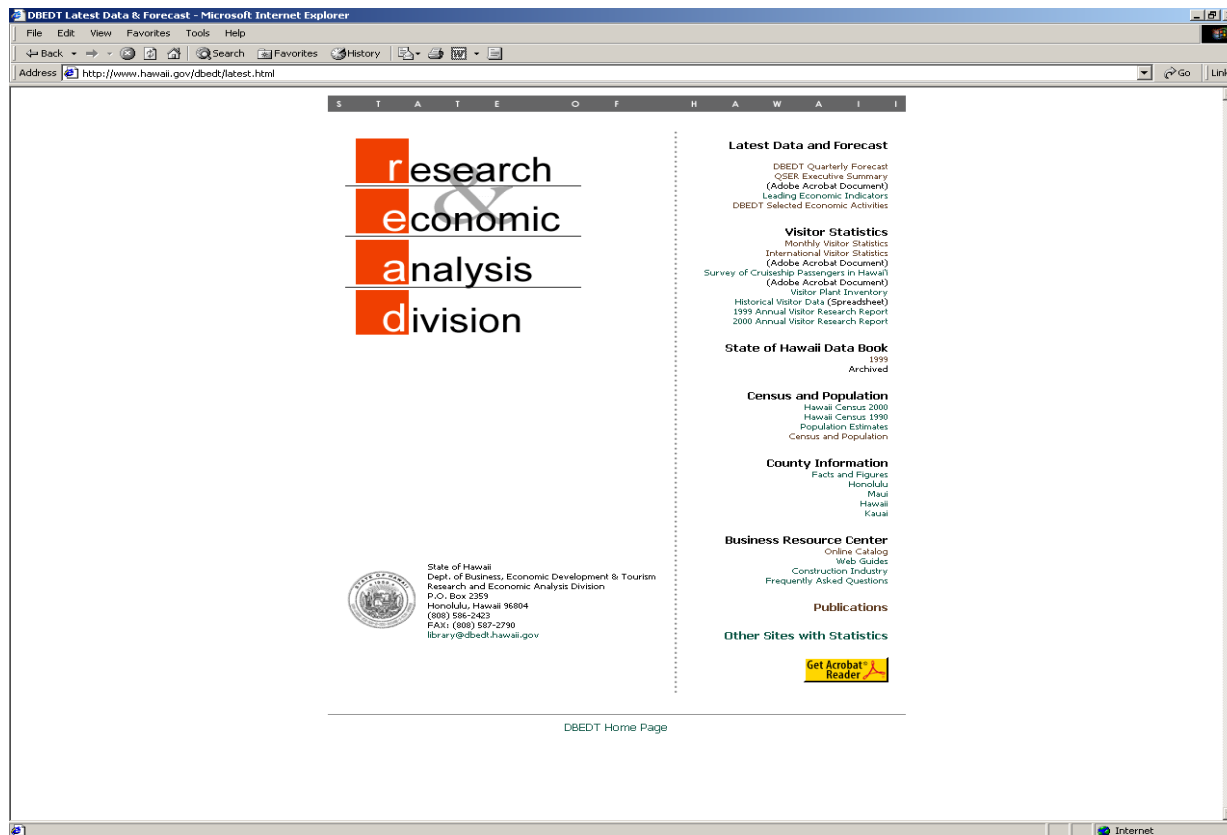
1992 = 100



Summary of Actual and Forecasted Key Economic Indicators for Hawaii: 2001 to 2003 (percent change)

	2001 (actual)	2002 (forecast)	2003 (forecast)
Total Population	1.0	1.0	1.0
Visitor Arrivals	-9.3	1.8	6.1
Honolulu CPI-U	1.2	1.2	1.7
Personal Income	3.5	3.8	4.2
Real Personal Income	2.3	2.5	2.4
Total Wage and Salary Jobs	0.3	-0.5	1.6
Gross State Product (GSP)	3.8p	4.0	4.2
Real GSP	1.2p	2.1	2.1
GSP Deflator	2.6p	1.9	2.1

Source: Department of Business, Economic Development and Tourism, December 2002.



www.hawaii.gov/dbedt

Presented by Glenn Ifuku

Department of Business, Economic Development & Tourism